

Chapter 4 Credit Underwriting

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1. How to Underwrite a VA-Guaranteed Loan

Change Date

September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
 - Subsection d step 6 has been changed to update “Loan Prospector” to “Automated Underwriting.”
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**a. VA
Underwriting
Standards**

VA loans involve a veteran’s benefit. Therefore, lenders are encouraged to make VA loans to all qualified veterans who apply.

VA’s underwriting standards are intended to provide guidelines for lenders’ underwriters as well as VA’s underwriters. Underwriting decisions must be based on sound application of the underwriting standards, and underwriters are expected to use good judgment and flexibility in applying the guidelines set forth in the following pages.

**b. Basic
Requirements**

By law, VA may only guarantee a loan when it is possible to determine that the veteran

- is a satisfactory credit risk, and
- has present and anticipated income that bare a proper relation to the contemplated terms of repayment.

VA’s underwriting standards are incorporated into VA regulations at [38 CFR 36.4337](#) and explained in this chapter. This chapter addresses the verifications, procedures, and analysis involved in underwriting a VA-guaranteed loan. It provides guidance on how to treat income, debts and obligations, credit history, and so on, and how to present and analyze these items on VA’s loan analysis form. It does not deal with every possible circumstance that will arise; therefore, underwriters must apply reasonable judgment and flexibility in administering this important veteran’s benefit.

Continued on next page

1. How to Underwrite a VA-Guaranteed Loan, Continued

c. Lender Responsibility

Lenders are responsible for

- developing all credit information
- properly obtaining all required verifications and the credit report
- ensuring the accuracy of all information on which the loan decision is based
- complying with the law and regulations governing VA's underwriting standards, and with VA's underwriting policies, procedures, and guidelines, and
- certifying as to compliance with all of the above.

d. Lender Procedures

[Section 2 of chapter 5](#) provides an overview of all procedures which must be completed when making a VA loan. The procedures below address only the credit underwriting of the loan.

| Step | Action |
|------|---|
| 1 | Initiate the VA and CAIVRS inquiries described in section 6 of this chapter in this chapter. |
| 2 | <p>Obtain all necessary verifications.</p> <ul style="list-style-type: none">• The applicant's authorization can be obtained for each verification needed, or on 1 blanket authorization form (attach a copy of the blanket authorization to each verification requested, including VA Form 26-8937, Verification of VA Benefit-Related Indebtedness, if applicable).• The credit report and verifications can be ordered by the lender or its agent or a party designated by the lender to perform that function. However, these documents must always be delivered by the credit reporting agency or verifying party directly to the lender or its agent, and never to another party. That is, while a lender may delegate authority for a builder, realtor, or other person to order the report for the lender, the report may not be delivered to such builder, realtor, and so on, and may not pass through the hands of any such party or the applicant. |
| 3 | <p>Compare similar information received from different sources. For example:</p> <ul style="list-style-type: none">– The number of dependents provided on the URLA, tax returns, credit report, and so on, should be the same.– The status of debts provided on the URLA and credit report should be the same. <p>Resolve any discrepancies.</p> |

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1. How to Underwrite a VA-Guaranteed Loan, Continued

d. Lender Procedures (continued)

| Step | Action |
|------|--|
| 4 | <p>Complete VA Form 26-6393, Loan Analysis, in conjunction with a careful review of the loan application and supporting documentation.</p> <p>The form is not required for IRRRLs (except IRRRLs to refinance delinquent VA loans).</p> |
| 5 | <p>Indicate the loan decision in item 50 of the Loan Analysis after ensuring that the treatment of income, debts, and credit is in compliance with VA underwriting standards.</p> |
| 6 | <p><i>Loans closed by an automatic lender</i> The underwriter must certify review and approval of the loan by signing item 51 of the Loan Analysis (for Automated Underwriting cases, see section 8 of this chapter. Note: For nonsupervised automatic lenders, line 51 signature must be a VA-approved underwriter.</p> <p><i>Prior approval loans</i> The individual with authority to determine that the loan meets VA credit standards and should be submitted to VA, must sign item 51 of the Loan Analysis.</p> |
| 7 | <p>An officer of the lender authorized to execute documents and act on behalf of the lender must complete the following certification: “The undersigned lender certifies that the loan application, all verifications of employment, deposit, and other income and credit verification documents have been processed in compliance with 38 CFR Part 36; that all credit reports obtained in connection with the processing of this borrower’s loan application have been provided to VA; that, to the best of the undersigned lender’s knowledge and belief, the loan meets the underwriting standards recited in Chapter 37 of title 38 United States Code and 38 CFR Part 36; and that all information provided in support of this loan is true, complete and accurate to the best of the undersigned lender’s knowledge and belief.”</p> |

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1. How to Underwrite a VA-Guaranteed Loan, Continued

e. Underwriting Special Types of Loans The underwriting standards and procedures explained in this chapter apply to these special types of loans generally. However, some special underwriting considerations also apply and can be found as follows:

| Type of Loan | Chapter | Section |
|--|-------------------|---------|
| Joint Loans | 7 | 1 |
| Energy Efficient Mortgages (EEMs) | 7 | 3 |
| Graduated Payment Mortgages (GPMs) | 7 | 6 |
| Growing Equity Mortgages (GEMs) | 7 | 7 |
| Loans Involving Temporary Interest Rate Buydowns | 7 | 8 |
| Farm Residence Loans | 7 | 9 |

f. Refinancing Loans While the underwriting standards detailed in this chapter apply to “cash-out” refinances, IRRRLs generally do not require any underwriting.

IRRRLs made to refinance VA loans 30 days or more past due must be submitted to VA for prior approval. It must be reasonable to conclude that

- the circumstances that caused the delinquency have been corrected, and
- the veteran can successfully maintain the new loan.

Reference: See [chapter 6](#) for details on all types of refinancing loans.

2. Income

Change Date

September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
 - Subsection e and k have been changed to update the E/MSS to [MyPay](#).
 - Subsection e has been further changed to delete references to VIE. This company no longer provides employment verifications.
 - Subsection f has been changed to remove an extra bullet in the middle of a paragraph.
-

**a.
Underwriter's
Objectives**

Identify and verify income available to meet

- the mortgage payment
- other shelter expenses
- debts and obligations, and
- family living expenses.

Evaluate whether verified income is

- stable and reliable
 - anticipated to continue during the foreseeable future, and
 - sufficient in amount.
-

**b. Importance
of Verification**

Only verified income can be considered in total effective income.

**c. Income of a
Spouse**

Verify and treat the income of a spouse who will be contractually obligated on the loan the same as the veteran's income.

To ensure compliance with the Equal Credit Opportunity Act ([ECOA](#)), do **not** ask questions about the income of an applicant's spouse unless the

- spouse will be contractually liable
 - applicant is relying on the spouse's income to qualify
 - applicant is relying on alimony, child support, or separate maintenance payments from the spouse or former spouse, or
 - applicant resides in a community property state or the security is in such a state.
-

Continued on next page

2. Income, Continued

c. Income of a Spouse
(continued)

Note: In community property states, information concerning a spouse may be requested and considered in the same manner as for the applicant, even if the spouse will not be contractually obligated on the loan.

d. [ECOA](#) Considerations

Restrict inquiries related to the applicant's spouse to the situations listed in the "Income of a Spouse" heading in this section.

Always inform the applicant (and spouse, if applicable) that they do not have to divulge information on the receipt of child support, alimony, or separate maintenance. However, in order for this income to be considered in the loan analysis, it must be divulged and verified.

Income cannot be discounted because of sex, marital status, age, race, or other prohibited bases under [ECOA](#).

Treat income from all sources equally; that is, the fact that all or part of an applicant's income is derived from any public assistance program is not treated as a negative factor, provided the income is stable and reliable.

e. Income from Non-Military Employment

Verification: General Requirement

Verify a minimum of 2 years employment.

If the applicant has been employed by the present employer less than 2 years

- verify prior employment plus present employment covering a total of 2 years
 - provide an explanation of why 2 years employment could not be verified.
 - compare any different types of employment verifications obtained (such as, Verification of Employment, pay stubs, tax returns, and so on) for consistency, and
 - clarify any substantial differences in the data that would have a bearing on the qualification of the applicant.
-

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2. Income, Continued

**e. Income from
Non-Military
Employment**
(continued)

Verification: Standard Documentation

Acceptable verification consists of:

- VA Form [26-8497](#), Request for Verification of Employment (VOE) or any format which furnishes the same information as VA Form [26-8497](#), **plus**
- a pay stub if the employer normally provides 1 to the applicant.

If the employer does **not** indicate the probability of continued employment on the VOE, the lender is not required to request anything additional on that subject.


The VOE and pay stub must be no more than 120 days old (180 days for new construction).

- For loans closed automatically, the date of the VOE and pay stub must be within 120 days of the date the note is signed (180 days for new construction).
- For prior approval loans, the date of the VOE and pay stub must be within 120 days of the date the application is received by VA (180 days for new construction).

The VOE must be an original. The pay stub may be an original or a copy certified by the lender to be a true copy of the original.

Note: It is acceptable for Department of Defense civilian employees to provide computer generated pay stubs accessed through [myPay](#) (Formerly known as E/MSS - Employee Member Self Service).

Verification: Employment Verification Services

Lenders may use VOEs supplied by an employment verification service only if VA has approved the use of VOEs from that particular provider. VA has approved  "FULL" verifications of employment through "The Work Number for Everyone," a service of the [TALX Corporation](#). (No pay stub is needed with the TALX verification.)

Continued on next page

2. Income, Continued

e. Income from Non-Military Employment (continued)

Verification: Alternative Documentation

Alternative documentation may be submitted in place of a VOE if the lender concludes that the applicant's income **is** stable, reliable, and anticipated to continue during the foreseeable future; that is, if the applicant's income qualifies as effective income.

2 years employment is not required to reach this conclusion.

Alternative documentation consists of

- pay stubs covering at least the most recent 30-day period
 - Note:* It is acceptable for Department of Defense civilian employees to provide computer generated pay stubs accessed through through [myPay](#) (Formerly known as E/MSS - Employee Member Self Service).
- W-2 forms for the previous 2 years, and
- telephone verification of the applicant's current employment.
 - Document the date of verification and the name, title, and telephone number of the person with whom employment was verified.

If the employer is **not** willing to give telephone verification of applicant's employment or the pay stubs or W-2 forms are in any way questionable as to authenticity, use standard documentation. Alternative documentation cannot be used.

Pay stubs and W-2 forms may be originals or copies certified by the lender to be true copies of the originals.

Verification: Additional Documentation for Persons Employed in the Building Trades or Other Seasonal or Climate-Dependent Work

In addition to the standard documentation (VOE and pay stub), obtain

- documentation evidencing the applicant's total earnings year to date
- signed and dated individual income tax returns for the previous 2 years, and
- if applicant works out of a union, evidence of the union's history with the applicant.

Continued on next page

2. Income, Continued

**e. Income from
Non-Military
Employment
(continued)**

Verification: Fax and Internet

Fax and Internet documentation may be submitted in place of a VOE if the lender concludes that the applicant's income **is** stable, reliable, and anticipated to continue during the foreseeable future; that is, if the applicant's income qualifies as effective income.

Fax and Internet documentation consists of:

- The same information contained in a standard Verification of Employment.
- And they must clearly identify the employer and source of information.
- Name and telephone number of a person who can verify faxed information.

Lenders are responsible for ensuring the authenticity of the documents. For Faxed Documents, review the "banner" information provided at the top of each page of the fax. For Internet documents, review the information contained on any headers/footers and the banner portion of the downloaded webpage(s). These pages must contain the uniform resource locator (URL) and the date and time printed. The documents should also be reviewed for errors such as incorrect area codes, unreadable names or income, etc....

Analysis: General Guidance

Income analysis is not an exact science. It requires the lender to underwrite each loan on a case by case basis, using:

- judgment
- common sense, and
- flexibility, when warranted.

Analyze the probability of continued employment (that is, whether income is stable and reliable) by examining the

- applicant's past employment record
- applicant's training, education, and qualifications for his/her position
- type of employment, and
- employer's confirmation of continued employment, if provided.

2 years' employment in the applicant's current position is a positive indicator of continued employment. It is **not** a required minimum and **not** always sufficient by itself to reach a conclusion on the probability of continued employment.

Continued on next page

2. Income, Continued

**f. Analysis:
Applicant
Employed Less
Than 12
Months**

Generally, employment less than 12 months is **not** considered stable and reliable. However, it may be considered stable and reliable if the individual facts warrant such a conclusion. Carefully consider

- the employer's evaluation of the probability of continued employment, if provided, and
- whether the applicant's training and/or education equipped him or her with particular skills that relate directly to the duties of his/her current position.
 - **Generally** applies to skilled positions. Examples include nurse, medical technician, lawyer, paralegal, and computer systems analyst.
- If the probability of continued employment is high-based on these factors then the lender may give favorable consideration to including the income in total effective income
 - An explanation of why income of less than 12 months duration was used must accompany the loan submission.
- If the probability of continued employment is good, but not as well supported or employment will be terminated at some point in the future which can be reasonably estimated, the lender may still consider the income of an applicant who has been employed at least 6 months to partially offset debts of 10 to 24 months duration.
- Determine the amount which can be used, based on such factors as
 - the employer's evaluation of the probability of continued employment, if provided
 - the length of employment (for example, 10 months versus 6 months).
- Include an explanation with the loan submission.

Continued on next page

2. Income, Continued

**g. Analysis:
Recent History
of Frequent
Changes of
Employment**

Short-term employment in a present position combined with frequent changes of employment in the recent past requires special consideration to determine stability of income. Analyze the reasons for the changes in employment.

Reference: See [section 4 of “Current Issues”](#) for a discussion of frequent job changes by individuals with low-to-moderate incomes.

Give favorable consideration to changes for the purpose of career advancement in the same or related field.

Favorable consideration may not be possible for changes

- with no apparent betterment to the applicant, and
- from 1 line of work to another.

If the lender includes applicant’s income in effective income, an explanation must accompany the loan submission.

**h. Income from
Overtime
Work, Part-
time Jobs,
Second Jobs,
and Bonuses**

Generally, such income cannot be considered stable and reliable unless it has continued (and is verified) for 2 years.

To include income from these sources in effective income:

- The income must be regular and predictable, and
- there must be a reasonable likelihood that it will continue in the foreseeable future based on
 - its compatibility with the hours of duty and other work conditions of the applicant’s primary job, and
 - how long the applicant has been employed under such arrangement.

The lender may use this income, if it is not eligible for inclusion in effective income, but is verified for at least 12 months, to offset debts of 10 to 24 months duration. Include an explanation.

Continued on next page

2. Income, Continued

i. Income from Commissions

Verification

When all or a major portion of the applicant's income is derived from commissions, obtain the following documentation:

- Verification of employment or other written verification which provides
 - the actual amount of commissions paid year-to-date
 - the basis for payment (that is, salary plus commission, straight commission, or draws against commission)
 - when commissions are paid (that is, monthly, quarterly, semiannually, or annually), plus
- individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years (or additional periods if needed to demonstrate a satisfactory earnings record)

Analysis

Generally, income from commissions is considered stable when the applicant has obtained such income for at least 2 years.

- Less than 2 years cannot usually be considered stable unless the applicant has had previous related employment and/or extensive specialized training.
- Less than 1 year can rarely qualify. In-depth development is required for a conclusion of stable income on less than 1 year cases.

Continued on next page

2. Income, Continued

j. Self-Employment Income

Verification

Obtain the following documentation:

- Current financial statements prepared in a generally recognized format, including:
 - year-to-date profit and loss statement
 - current balance sheet

Note: The financial statements must be sufficient for a loan underwriter to determine the necessary information for loan approval. The lender may require accountant-prepared financial statements or financial statements audited by a Certified Public Accountant if needed to make such a determination due to the nature of the business or the content of the financial statements.
- Individual income tax returns, signed and dated, plus all applicable schedules for the previous two years (or additional periods if needed to demonstrate a satisfactory earnings record).
- if the most recent year's tax return has not yet been prepared, provide a profit and loss statement for that year, and
- if the business is a corporation or partnership
 - copies of the signed federal business income tax returns for the previous 2 years plus all applicable schedules, and
 - a list of all stockholders or partners showing the interest each holds in the business

Note: Obtain a written credit report on the business as well as the applicant as needed.

Analysis

Generally, income from self-employment is considered stable when the applicant has been in business for at least 2 years.

- Less than 2 years cannot usually be considered stable unless the applicant has had previous related employment and/or extensive specialized training.
- Less than 1 year can rarely qualify.

In-depth development is required for a conclusion of stable income on less than 1 year cases.

Continued on next page

2. Income, Continued

j. Self-Employment Income
(continued)

Analyze the general economic outlook for similar businesses to determine whether the business can be expected to generate sufficient income for the applicant's future needs.

If the business shows a steady or significant decline in earnings over the period analyzed, the reasons for such decline must be analyzed to determine whether the trend is likely to continue or be reversed.

If the business is unusual and it is difficult to determine the probability of continued operation, obtain an opinion on viability and future earnings, and an explanation of the function and financial operations of the business from a qualified party.

Depreciation claimed as a deduction on the tax returns and financial statements of the business may be included in effective income.

k. Active Military Applicant's Income

Verification

A military LES (Leave and Earnings Statement) is required instead of a VOE (VA Form [26-8497](#)).

- The LES must furnish the same information as a VOE.
- The LES must be no more than 120 days old (180 days for new construction).
- For loans closed automatically, the date of the LES must be within 120 days of the date the note is signed (180 days for new construction).
- For prior approval loans, the date of the LES must be within 120 days of the date the application is received by VA (180 days for new construction).

The LES must be an original or a copy certified by the lender to be a true copy of the original. **Note:** The Department of Defense provides service members access to a computer generated LES through the [myPay](#) (Formerly known as E/MSS - Employee Member Self Service). This type of LES is acceptable.

In addition, identify service members who are within 12 months of release from active duty or end of contract term. Find the date of expiration of the applicant's current contract for active service on the LES (for an enlisted service member) or on an officer's orders. For a National Guard or Reserve member, find the expiration date of the applicant's current contract.

Continued on next page

2. Income, Continued

**k. Active
Military
Applicant's
Income
(continued)**

Verification (continued)

If the date is within 12 months of the anticipated date that the loan will close, the loan package must also include 1 of the following 4 items, or combinations of items, to be acceptable:

- Documentation that the service member has already re-enlisted or extended his/her period of active duty to a date beyond the 12 month period following the projected closing of the loan, or
- verification of a valid offer of local civilian employment following the release from active duty. All data pertinent to sound underwriting procedures (date employment will begin, earnings, and so on) must be included, or
- a statement from the service member that he/she intends to reenlist or extend his/her period of active duty to a date beyond the 12 month period, plus
- a statement from the service member's commanding officer confirming that:
 - the service member is eligible to reenlist or extend his/her active duty as indicated, and
 - the commanding officer has no reason to believe that such reenlistment or extension of active duty will not be granted, or
- documentation of other unusually strong positive underwriting factors, such as:
 - a down payment of at least 10%
 - significant cash reserves, and
 - clear evidence of strong ties to the community coupled with a nonmilitary spouse's income so high that only minimal income from the active duty service member is needed to qualify.

Continued on next page

2. Income, Continued

**k. Active
Military
Applicant's
Income
(continued)**

Analysis: Base Pay

Consider the applicant's base pay as stable and reliable except if the applicant is within 12 months of release from active duty:

- Analyze the additional documentation submitted.
- If the applicant will not be reenlisting, determine whether
 - the applicant's anticipated source of income is stable and reliable, and/or
 - unusually strong underwriting factors compensate for any unknowns regarding future sources of income.

Verification: Military Quarters Allowance

To use a military quarters allowance in the underwriting analysis, obtain:

- *DD Form 1747, Status of Housing Availability*, indicating that item b (Permanent) or item d of that form applies. This form serves as notice that:
 - Quarters will not be made available to the applicant, and
 - the applicant is authorized to make permanent arrangements for nonmilitary housing.

Except DD Form 1747 is not required in either of the following circumstances:

- When the applicant's duty assignment clearly qualifies the applicant for quarters allowance.
 - Examples include personnel stationed overseas whose families remain stateside, recruiters on detached duty, and military personnel stationed in areas where no on-base housing exists.
- When VA has established that the waiting lists for on-base housing in a particular geographic area are so long that it is improbable that individuals desiring to purchase off-base housing would be precluded from doing so in the foreseeable future.
- VA issues a release to all lenders in the jurisdiction to inform them of its determination.

Include an explanation with the loan submission of the circumstances justifying omission of the form.

Continued on next page

2. Income, Continued

**k. Active
Military
Applicant's
Income
(continued)**

Analysis: Military Quarters Allowance

The lender may include a military quarters allowance in effective income if properly verified. In most areas there will be an additional variable housing allowance, which can also be included.

- The military quarters and variable housing allowances are **not** taxable income.
- Ensure that the applicant meets the occupancy requirements set forth in [section 5 of chapter 3](#).

Verification: Subsistence and Clothing Allowances

Any subsistence (rations) and clothing allowances are indicated on the LES.

Analysis: Subsistence and Clothing Allowances

The lender may include verified allowances in effective income. These allowances are not taxable income.

Note: The clothing allowance generally appears on the LES as an annual amount. Convert it to a monthly amount for the loan analysis.

Verification: Other Military Allowances

To consider a military allowance in the underwriting analysis, obtain verification of the type and amount of the military allowance, and how long the applicant has received it.

Analysis: [Other Military Allowances](#)

Examples include propay, flight or hazard pay, overseas pay and combat pay.

- All of these are subject to periodic review and/or testing of the recipient to determine continued eligibility.

These types of allowances are considered taxable income by the IRS, unlike housing, clothing and subsistence allowances.

Military allowances may be included in effective income only if such income can be expected to continue because of the nature of the recipient's assigned duties.

Example: Flight pay verified for a pilot.

If duration of the military allowance cannot be determined, this source of income may still be used to offset obligations of 10 to 24 months duration.

Continued on next page

2. Income, Continued

l. Income from Service in the Reserves or National Guard

Income derived from service in the Reserves or National Guard may be included in effective income if the length of the applicant's total active and Reserve/Guard service indicates a strong probability that the Reserve/Guard income will continue.

Otherwise, this income may be used to offset obligations of 10 to 24 months duration.

m. Recently Activated Reservists or Guard

Lenders must ask every applicant, whose income is being used to qualify for a loan, if their income is subject to change due to participation in a reserves/national guard unit due to activation.

To accomplish this, lenders must obtain a statement, which affirms that a veteran-applicant's status relative to membership in the Reserves or National Guard, has been ascertained and considered. The statement should be made part of the origination package and should be submitted to VA in the event the loan is selected for full review.

When the answer is yes, lenders must determine what the applicant's income may be if activated:

- **Reduced**, carefully evaluate the impact the reduction may have on the borrower's ability to repay the loan.
- **Increased**, consider the likelihood the income will continue beyond a 12 month period.

Continued on next page

2. Income, Continued

**m. Recently
Activated
Reservists or
Guard
(continued)**

Example, if an activated reserve/guard member applies for a loan, they may present orders indicating their tour of duty is not to exceed 12 months. Under these circumstances lenders need to carefully evaluate both the present income (current employment) and expected income(reservist income) in terms of income stability and reliability.

There are no clear-cut procedures that can be applied to all cases. Evaluate all aspects of each individual case, including credit history, accumulation of assets, overall employment history, etc... and make the best decision for each loan regarding the use of income in qualifying for the loan.

It is very important that loan files be carefully and thoroughly DOCUMENTED, including any reasons for using or not using reservist income in these situations.

Weigh the desire to provide a veteran their benefit with the responsibility to ensure the veteran will not be placed in a position of financial hardship.

Lenders should contact the appropriate VA office if any questions arise regarding unusual circumstances regarding a mobilized servicemember's income.

**n. Income of
Recently
Discharged
Veterans**

Verification

Obtain verification of any of the following which apply:

- Employment income
Reference: See "Income from Non-Military Employment" in this section for verification requirements
- retirement income, and
- military separation payments.

If the applicant has been employed in a position for only a short time, obtain a statement from the employer that the applicant is performing the duties of the job satisfactorily and the probability of continued employment is favorable.

Continued on next page

2. Income, Continued

**n. Income of
Recently
Discharged
Veterans
(continued)**

Analysis: Prospects for Continued Employment

Cases involving recently discharged veterans often require the underwriter to exercise a great deal of flexibility and judgment in determining whether the employment income will continue in the foreseeable future. This is because some veterans may have little or no employment experience other than their military occupation. Continuity of employment is essential for a veteran with no retirement income or insufficient retirement income to support the loan obligation.

For recently discharged veterans who have been in their new jobs only a very short time, analyze prospects for continued employment as follows:

- If the duties the applicant performed in the military are similar or directly related to the duties of the present position, use this as 1 indicator that the employment is likely to continue.
- If the applicant's current job requires skills for which the applicant has had no training or experience, greater time in the current job may be needed to establish stability.

If the applicant's retirement income, compared to total estimated shelter expense, long-term debts and family living expense, is such that only minimal income from employment is necessary to qualify from the income standpoint, resolve doubt in favor of the applicant.

Examples:

- Qualifying short-term employment - An applicant who was an airplane mechanic in the military is now employed as an auto mechanic or machinist.
- Nonqualifying short-term employment - An applicant who was an Air Force pilot is now employed as an insurance salesperson on commission.

Most cases fall somewhere between these extremes. Fully develop the facts of each case in order to make a determination.

Apply the guidelines under "Self-Employment Income" in this section to a recently discharged veteran who is self-employed.

Continued on next page

2. Income, Continued

**n. Income of
Recently
Discharged
Veterans
(continued)**

Analysis: Voluntary Separation Payments

2 types of voluntary separation payments are used to facilitate military downsizing:

(1) *Special Separation Benefit (SSB)*

- A one-time lump sum
- Taxable in the year received, and
- Treat the same as any substantial cash reserve.

(2) *Voluntary Separation Incentive (VSI)*

- Annual payments
- Taxable in the year received
- Include in effective income
- Calculated by multiplying the veteran's years of service times 2
- Requires a minimum of 6 years service (equates to a minimum of 12 years annual payments).

If the veteran receives both VSI and VA disability compensation payments, the VSI is reduced by the amount of disability compensation. However, if the disability compensation is related to an earlier period of service and the VSI a later period of service, the VSI is **not** reduced by the amount of disability compensation.

- VSI is reduced by the amount of any base pay or compensation a member receives for active or reserve service, including inactive duty training. The veteran can designate a beneficiary for VSI payments in the event of death.

Continued on next page

2. Income, Continued

o. Rental Income

Verification: Multi-Unit Property Securing the VA Loan

Verify

- cash reserves totaling at least 6 months mortgage payments (principal, interest, taxes, and insurance - PITI), and
- documentation of the applicant's prior experience managing rental units or other background involving both property maintenance and rental.

Analysis: Multi-Unit Property Securing the VA Loan

Include the prospective rental income in effective income only if

- evidence indicates the applicant has a reasonable likelihood of success as a landlord, and
- cash reserves totaling at least 6 months mortgage payments are available.

The amount of rental income to include in effective income is based on 75% of

- verified prior rent collected on the units (existing property), or
- the appraiser's opinion of the property's fair monthly rental (proposed construction).

Note: A percentage greater than 75% may be used if the basis for such percentage is adequately documented.

Verification: Rental of the Property Applicant Occupied Prior to the New Loan

Obtain a copy of the rental agreement on the property, if any.

Analysis: Rental of the Property Applicant Occupied Prior to the New Loan

Use the prospective rental income only to offset the mortgage payment on the rental property and only if there is no indication that the property will be difficult to rent. This rental income may **not** be included in effective income.

Obtain a working knowledge of the local rental market. If there is no lease on the property, but the local rental market is very strong, the lender may still consider the prospective rental income for offset purposes.

Continued on next page

2. Income, Continued

**o. Rental
Income**
(continued)

Verification: Rental of Other Property Not Securing the VA Loan
Obtain

- documentation of cash reserves totaling at least 3 months mortgage payments (principal, interest, taxes, and insurance - PITI), and
- individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years, which show rental income generated by the property.

Analysis: Rental of Other Property Not Securing the VA Loan
Rental income verified as stable and reliable may be included in effective income.

If there is little or no prior rental history on the property, make a determination based on review of

- documentation of the applicant's prior experience managing rental units or other background involving both property maintenance and rental
- any leases on the property, and
- the strength of the local rental market.

Property depreciation claimed as a deduction on the tax returns may be included in effective income.

Continued on next page

2. Income, Continued

**p. Alimony,
Child Support,
and
Maintenance
Payments**

See “[ECOA](#) Considerations” in this section.

Verify the income if the applicant wants it to be considered. The payments must be likely to continue in order to include them in effective income.

Factors used to determine whether the payments will continue include, but are not limited to

- whether the payments are received pursuant to a written agreement or court decree
 - the length of time the payments have been received
 - the regularity of receipt, and
 - the availability of procedures to compel payment.
-

**q. Automobile
or Similar
Allowances**

Generally, automobile allowances are paid to cover specific expenses related to an applicant’s employment, and it is appropriate to use such income to offset a corresponding car payment.

However, in some instances, such an allowance may exceed the car payment. With proper documentation, income from a car allowance which exceeds the car payment can be counted as effective income. Likewise, any other similar type of allowance which exceeds the specific expenses involved may be added to gross income to the extent it is documented to exceed the actual expense.

Continued on next page

2. Income, Continued

r. Other Types of Income

If it is reasonable to conclude that other types of income will continue in the foreseeable future, include it in effective income. Otherwise, consider whether it is reasonable to use the income to offset obligations of 10 to 24 months duration.

“Other” types of income which may be considered as effective income include, but are not limited to

- pension or other retirement benefits
- disability income
- dividends from stocks
- interest from bonds, savings accounts, and so on, and
- royalties.

The lender may include verified income from public assistance programs in effective income if evidence indicates it will probably continue for 3 years or more.

The lender may include verified workers’ compensation income that will continue in the foreseeable future, if the veteran chooses to reveal it.

The lender may include verified income received specifically for the care of any foster child(ren). Generally, however, foster care income is to be used only to balance the expenses of caring for the foster child(ren) against any increased residual income requirements.

Do **not** include temporary income items such as VA educational allowances and unemployment compensation in effective income.

Exception:

If unemployment compensation is a regular part of the applicant’s income due to the nature of his or her employment (for example, seasonal work), it may be included.

3. Income Taxes and Other Deductions from Income

| | |
|--------------------|---|
| Change Date | September 15, 2004, Change 4 This section has been changed to create subsection lettering. |
|--------------------|---|

| | |
|---|---|
| a. Income Tax and Social Security Deductions | <p>Determine the appropriate deductions for Federal income tax and Social Security using the “Employer’s Tax Guide,” Circular E, issued by the Internal Revenue Service.</p> <p>Determine the appropriate deductions for state and local taxes using similar materials provided by the states.</p> <p>The lender may consider the applicant’s potential tax benefits from obtaining the loan (for example, mortgage interest deduction) in the analysis. To do so,</p> <ul style="list-style-type: none">• determine what the applicant’s withholding allowances will be, using the instructions and worksheet portion of IRS Form W-4, Employee’s Withholding Allowance Certificate, and• apply that withholding number when calculating Federal and state income tax deductions. |
|---|---|

Continued on next page

3. Income Taxes and Other Deductions from Income, Continued

**b. Income Tax
Credits from
Mortgage
Credit
Certificates**

Mortgage Credit Certificates (MCCs) issued by state and local governments may qualify a borrower for a Federal tax credit. The Federal tax credit is based on a certain percentage of the borrower's mortgage interest payment.

Lenders must provide a copy of the MCC to VA with the loan package which indicates

- the percentage to be used to calculate the tax credit, and
- the amount of the certified indebtedness.

The certified indebtedness can be comprised of a loan incurred by the veteran to acquire a principal residence or a qualified home improvement or rehabilitation loan.

If the percentage on the MCC is more than 20%, there is an annual limit on the tax credit equal to the lesser of \$2,000 or the borrower's maximum tax liability. Calculate the tax credit by applying the specified percentage to the interest paid on the certified indebtedness. Then apply the annual limit.

Example: The MCC shows a 30 percent rate and \$100,000 certified indebtedness. The borrower will pay approximately \$8,000 in annual mortgage interest. Borrower's estimated total Federal income tax liability is \$9,000. Calculate the tax credit as follows:

- 30% of \$8,000 = \$2,400
- Apply the annual \$2,000 limit
- The tax credit will be \$2,000
- Use \$167 (one-twelfth of \$2,000) in the monthly analysis.

Note: If the mortgage on which the borrower pays interest is greater than the amount of certified indebtedness, limit the interest used in the tax credit calculation to that portion attributable to the certified indebtedness.

4. Assets

Change date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

**a. Amount of
Cash Required**

The applicant or spouse must have sufficient cash to cover

- any closing costs or points which are the applicant's responsibility and are not financed in the loan
- the down payment, if a Graduated Payment Mortgage, and
- the difference between the sales price and the loan amount, if the sales price exceeds the reasonable value established by VA.

VA does **not** require the applicant to have additional cash to cover a certain number of mortgage payments, unplanned expenses, or other contingencies.

However, the applicant's ability to accumulate liquid assets and the current availability of liquid assets for unplanned expenses should be considered in the overall credit analysis.

**b. Verification
Requirement**

Verify all liquid assets owned by the applicant or spouse to the extent they are needed to close the loan. In addition, verify any liquid assets that may have a bearing on the overall credit analysis; that is, significant assets.

- Use VA Form [26-8497a](#), Request for Verification of Deposit, as appropriate,
OR original or certified true copies of the applicant's last 2 bank statements.
OR the borrower's bank statements available to them by Internet or faxed from the depository directly to the lender. In cases where the lending institution uses Internet based verifications, ensure the URL appears on the document.
 - Verifications must be no more than 120 days old (180 days for new construction).
 - For automatically closed loans, this means the date of the deposit verification is within 120 days of the date the note is signed (180 days for new construction).
-

Continued on next page

4. Assets, Continued

b. Verification Requirement
(continued)

For prior approval loans, this means the date of the deposit verification is within 120 days of the date the application is received by VA (180 days for new construction).

c. Pending Sale of Real Estate

In some cases, the determination that the income and/or assets of a veteran are sufficient to qualify for the loan depends upon the consummation of the sale of presently owned real property.

- Sales proceeds may be necessary to make a down payment or pay closing costs on the VA loan.
- In addition, the lender may want to consider the amount of equity the applicant has accumulated in the property and the extent to which that equity is attributable to the applicant's investment rather than the housing market, in evaluating the applicant's ability to manage assets.

The lender may consider any down payment or costs on the VA loan as provided for by the sale of the property if available information provides a reasonable basis for concluding the equity to be realized from the sale will be sufficient for this purpose.

References:

- See [section 4 of chapter 5](#) for prior approval loans which depend upon the sale of property for the borrower to qualify.
 - See [section 6 of chapter 5](#) for required loan closing documents.
-

5. Debts and Obligations

| | |
|--------------------|---|
| Change Date | September 15, 2004, Change 4 This section has been changed to create subsection lettering. |
|--------------------|---|

| | |
|------------------------|--|
| a. Verification | Significant debts and obligations of the applicant must be verified and rated. |
|------------------------|--|

Obtain a credit report.

Reference: See **section 7 of this chapter** for details on the type of credit report required.

For obligations not included on the credit report which are revealed on the application or through other means, the lender must obtain a verification of deposit showing the obligation or other written verification directly from the creditor. The lender must also separately verify accounts listed as “will rate by mail only” or “need written authorization.”

When a pay stub or leave-and-earnings statement indicates an allotment, the lender must investigate the nature of the allotment to determine whether the allotment is related to a debt.

For obligations that have not been rated on the credit report or elsewhere, obtain the verification and rating directly from the creditor. Include a written explanation for any obligation that is not rated.

Resolve all discrepancies. If the credit report or deposit verification reveals significant debts or obligations which were not divulged by the applicant

- obtain clarification as to the status of such debts from the applicant, then
- verify any remaining discrepancies with the creditor.

Continued on next page

5. Debts and Obligations, Continued

a. Verification (continued)

Credit reports and verifications must be no more than 120 days old (180 days for new construction).

- For automatically closed loans, this means the date of the credit report or verification is within 120 days of the date the note is signed (180 days for new construction).
- For prior approval loans, this means the date of the credit report or verification is within 120 days of the date the application is received by VA (180 days for new construction).

[ECOA](#) prohibits requests for, or consideration of, credit information on a spouse who will not be contractually obligated on the loan except

- if the applicant is relying on alimony, child support, or maintenance payments from the spouse (or former spouse), or
- in community property states.
 - If the property is located in a community property state, VA requires consideration of the spouse's credit information (whether or not the spouse will be personally liable on the note and whether or not the applicant and spouse choose to have the spouse's income considered).

b. Verification of Alimony and Child Support Obligations

The payment amount on any alimony and/or child support obligation of the applicant **must** be verified.

Do **not** request documentation of an applicant's divorce unless it is necessary to verify the amount of any alimony or child support liability indicated by the applicant. If, however, in the routine course of processing the loan, the lender encounters direct evidence (such as, in the credit report) that a child support or alimony obligation exists, make any inquiries necessary to resolve discrepancies and obtain the appropriate verification.

Continued on next page

5. Debts and Obligations, Continued

c. Analysis of Debts and Obligations

Deduct significant debts and obligations from total effective income when determining ability to meet the mortgage payments. Significant debts and obligations include

- debts and obligations with a remaining term of 10 months or more; that is, long-term obligations, and
- accounts with a term less than 10 months that require payments so large as to cause a severe impact on the family's resources for any period of time.

Example: Monthly payments of \$300 on an auto loan with a remaining balance of \$1,500, even though it should be paid out in 5 months, would be considered significant. The payment amount is so large as to cause a severe impact on the family's resources during the first, most critical, months of the home loan.

Determine whether debts and obligations which do **not** fit the description of "significant" should be given any weight in the analysis. They may have an impact on the applicant's ability to provide for family living expenses.

If a married veteran wants to obtain the loan in his or her name only, the veteran may do so without regard to the spouse's debts and obligations in a non-community property state. However, in community property states, the spouse's debts and obligations must be considered even if the veteran wishes to obtain the loan in his or her name only.

Debts assigned to an ex-spouse by a divorce decree will not generally be charged against a veteran-borrower. This includes debts that are now delinquent.

Continued on next page

5. Debts and Obligations, Continued

**d. Applicant as
Co-obligor on
Another's Loan**

The applicant may have a contingent liability based on co-signing a loan. If

- there is evidence that the loan payments are being made by someone else, and
 - there is no reason to believe that the applicant will have to participate in repayment of the loan, then
 - the lender may exclude the loan payments from the monthly obligations factored into the net effective income calculation in the loan analysis.
-

**e. Pending Sale
of Real Estate**

In some cases, the determination that the income and/or assets of a veteran are sufficient to qualify for the loan depends upon the consummation of the sale of presently owned real property. Sales proceeds may be necessary to

- clear the outstanding mortgage(s) against the property
- pay off outstanding consumer obligations, and/or
- make a down payment or pay closing costs on the VA loan.

Alternatively, the veteran may intend to sell the property with the buyer assuming the outstanding mortgage obligation.

The lender may disregard the payments on the outstanding mortgage(s) and any consumer obligations which the veteran intends to clear if available information provides a reasonable basis for concluding the equity to be realized from the sale will be sufficient for this purpose.

References:

- See [section 4 of chapter 5](#) for prior approval loans dependent upon the sale of property for the borrower to qualify.
- See [section 6 of chapter 5](#) for required loan closing documents.

Continued on next page

5. Debts and Obligations, Continued

f. Secondary Borrowing

If the applicant plans to obtain a second mortgage simultaneously with the VA-guaranteed loan include the second mortgage payment as a significant debt.

Reference: See [section 4 of chapter 9](#) for VA limitations on secondary borrowing.

From an underwriting standpoint, the veteran must **not** be placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA.

g. Deferred Student Loan Payments

If student loan repayments are scheduled to begin within 12 months of the date of VA loan closing, lenders should consider the anticipated monthly obligation in the loan analysis. If the borrower is able to provide evidence that the debt may be deferred for a period outside that timeframe, the debt need not be considered in the analysis.

h. Loans Secured By Deposited Funds

Certain types of loans secured against deposited funds (signature loans, cash value life insurance policies, 401K loans, etc...) in which repayment may be obtained through extinguishing the asset, do not require repayment consideration for loan qualification.

Note: Assets securing these loans may not be included as an asset in the loan analysis.

6. Required Search for and Treatment of Debts Owed to the Federal Government

Change Date

September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
 - Subsection a has been changed to add a reference to “unmarried” surviving spouses. This section is further changed to add information pertaining to use of HUD’s on-line CAIVRS.
 - Subsections a and d have been changed to provide links and URL to the HUD operated on-line CAIVRS system. Subsection d was further changed to remove “Lender” to the beginning of the sentence instead of being within a parenthetical.
 - Subsection c has been changed to add the Department of Justice (DOJ). Judgments owed to DOJ are reported by CAIVRS.
 - Subsection e has been changed as follows:
 - Step 4 has been changed to delete information regarding erroneous CAIVRS information; erroneous information must be provided to the number listed by CAIVRS.
 - Step 4 has been changed noting that only Small Business Administration, VA and Education have alternate contact points for a CAIVRS hit.
-

a. The Search Requirement

There are 2 separate procedures the lender must follow. Both should be initiated immediately upon receipt of a loan application to avoid delays in closing the loan.

(1) Ask the veteran and any veteran co-obligors (including spouse if a veteran) if he or she

- is receiving VA disability benefits
- would be entitled to receive VA disability benefits but for the receipt of retired pay
- has received VA disability benefits in the past, or
- is **an unmarried** surviving spouse of a veteran who died on active duty or as a result of a service-connected disability.

If the veteran falls under 1 of the above categories, follow the procedures discussed under “Debt Related to VA Benefits,” subsection b.

Continued on next page

6. Required Search for and Treatment of Debts Owed to the Federal Government, Continued

a. The Search Requirement (continued)

(2) For all applicants and co-obligors (veteran or nonveteran) on all VA loans including Interest Rate Reduction Refinancing Loans ([IRRRLs](#)), perform a [CAIVRS](#) inquiry.

Reference: See “[CAIVRS](#) Procedures” in this section.

Note: Lenders who have HUD authority to use the HUD [CAIVRS](#) system may now obtain a prescreening through the HUD website. Please see “[CAIVRS](#) Procedures” for more information.

b. Debt Related to VA Benefits

Before processing a loan involving certain veterans, as described in item (1) of “The Search Requirement,” the lender must submit VA Form [26-8937](#), Verification of VA Benefit-Related Indebtedness, to the VA office where the loan application and/or closed loan package will be sent. VA will complete and return the form to the lender.

The loan cannot be submitted for prior approval or approved under the automatic procedure until the lender obtains the completed form from VA. The lender must submit the completed form with the loan package.

If the form indicates that the applicant receives nonservice-connected pension or has been rated incompetent by VA, the loan cannot be closed automatically. Submit the loan for prior approval.

If the form indicates that the applicant has any of the following:

- An outstanding indebtedness of overpaid education, compensation or pension benefits
 - an education or direct home loan in default
 - an outstanding indebtedness resulting from payment of a claim on a prior guaranteed home loan,
 - a repayment plan for any of these debts that is not current, then one of the following must accompany the loan package:
 - evidence of payment in full of the debt, **or**
 - evidence of a current repayment plan acceptable to VA **and** evidence that the veteran executed a promissory note for the entire debt balance.
-

Continued on next page

6. Required Search for and Treatment of Debts Owed to the Federal Government, Continued

b. Debt Related to VA Benefits (continued)

Note: No promissory note is required in cases referred to the Department of Justice, General Accounting Office, or VA Regional Counsel for judicial enforcement. In such cases, VA will obtain information on the applicant's debt status from these parties and relay pertinent information to the lender.

VA may find a repayment plan acceptable if:

- the veteran has been satisfactorily making payments on a repayment plan in effect prior to the lender's inquiry
- the veteran's overall credit history and anticipated financial capacity after the proposed loan is made indicate a reasonable likelihood that the repayment plan will be honored and the outstanding amount of indebtedness is not so large that it would prevent payment in full within a reasonable period (approximately 1 year), or
- the case involves unusually meritorious circumstances.

Example:

- Consideration would be given to a veteran with an outstanding credit history and adequate income whose debt balance is too large to be reasonably paid out in less than 18 months to 2 years.

VA will offer special consideration to a veteran's claim that he or she was not previously aware of an overpayment of benefits.

c. What is CAIVRS?

[CAIVRS](#) is a HUD-maintained computer information system which enables participating lenders to learn when an applicant has previously defaulted on a federally-assisted loan. The system's interactive voice response function provides instant credit information.

The database includes default information from the [Department of Agriculture](#), [Department of Education](#), [Department of Justice](#), [HUD](#), [Small Business Administration](#), and [VA](#).

The VA default information included in the database relates to

- overpayments on education cases
- overpayments on disability benefits income, and
- claims paid due to home loan foreclosures.

Continued on next page

6. Required Search for and Treatment of Debts Owed to the Federal Government, Continued

d. CAIVRS Procedures

VA assigns an 11-digit VA **lender** ID number to each new lender (See [section 13 of chapter 1](#)), then automatically forwards the ID number to HUD with a request to grant the lender CAIVRS access. The lender can begin accessing CAIVRS within several weeks of its VA ID number assignment.

Perform a CAIVRS screening on each applicant and any co-obligor immediately upon receipt of a loan application. This includes [IRRRL](#) applicants. Step-by-step instructions follow (See also [HUD Mortgagee Letter 92-31](#)).

HUD also offers on-line access to CAIVRS. For details, contact HUD or go to <http://www.hud.gov/offices/hsg/sfh/sys/caivrs/caivrs.cfm>.

| Step | Action |
|------|---|
| 1 | Call CAIVRS using a touch-tone telephone. Dial (301) 344-4000 Monday through Saturday 8:00 a.m. to 8:00 p.m. Eastern Time. |
| 2 | <ul style="list-style-type: none">You will hear, "Welcome to the HUD Voice Response System. To access the Credit Alert System, press 1. To access the Line of Credit Control System, press 2. If you have completed your call, press Zero. Thank you."Enter 1. |
| 3 | <p>You will hear, "You have reached the HUD Credit Alert System. Please enter your credit alert access code and then press #."</p> <ul style="list-style-type: none">Enter the first 10 digits of your VA lender ID number, then the "#" sign. <p>CAIVRS will only allow 1 second attempt to enter an access code. The session is terminated if the second attempt fails.</p> |
| 4 | <p>If the lender is authorized to process more than 1 loan type, you will hear a menu. "If you are processing a HUD Title I loan, press 1, or if you are processing a FHA Single Family mortgage loan, press 2, or if you are processing a HUD 312 LPA, press 3, or if you are processing a Veterans Affairs loan, press 4, or if you are...(and so on),..then press #."</p> <ul style="list-style-type: none">Enter 4, then "#". |
| 5 | <p>You will hear, "Please now enter applicant's Social Security Number and then press * OR the Tax Identification Number and then press #."</p> <ul style="list-style-type: none">Enter the appropriate number and symbol. |

Continued on next page

6. Required Search for and Treatment of Debts Owed to the Federal Government, Continued

d. CAIVRS Procedures (continued)

| Step | Action |
|------|--|
| 6 | <p>You will hear, “You have entered Social Security Number ----- (repeat of number entered) or Tax Identification Number ----- . Please enter ‘Y’ if this is correct, or ‘N’ if not correct.”</p> <ul style="list-style-type: none">• Enter “Y” if correct.• If incorrect, enter “N” and repeat Step 5. |
| 7 | <p>If there is no match, you will hear, “There are no claims, foreclosures or defaults for this borrower.”</p> <p>If there is a match, you will hear a message reciting:</p> <ul style="list-style-type: none">• The type of match (For example, “There is a foreclosure on this borrower.”)• The case number (For example, “DVA default ----- “)• The point of contact referral message (“For information, please call area code --- --- ----- “). <p>Copy down all pertinent information provided.</p> |
| 8 | <p>You will hear, “Credit Alert Confirmation Code is ----- .”</p> <p>Copy down the confirmation code for future identification of the particular inquiry.</p> |
| 9 | <p>You will hear, “If you would like the access information repeated, press 1, or if you would like to enter another applicant for the same type of loan, press 2, or for a different type of loan press 3.”</p> <ul style="list-style-type: none">• enter 1 (to have the applicant’s information repeated) or• enter 2 (then return to Step 5) or• enter 3 (then return to Step 4) or• hang up (if you are finished). |

Continued on next page

6. Required Search for and Treatment of Debts Owed to the Federal Government, Continued

d. CAIVRS Procedures (continued)

| Step | Action |
|------|--|
| 10 | If you remain on the line you will hear, “To return to the main menu press zero. If call completed, you may hang up now. Thank you for using the HUD Voice Response System.” <ul style="list-style-type: none">• Enter 0, or• hang up. |
| 11 | <ul style="list-style-type: none">• Enter the CAIVRS confirmation code on VA Form 26-6393, Loan Analysis, as evidence the screening was performed.• Enter the code in the space to the right of the “NO” block in item 47.• For IRRRLs, enter the CAIVRS confirmation code on VA Form 26-8923, IRRRL Worksheet, beside the word “Note” which is located near the bottom of the form. |

e. Applicant Presently Delinquent

Give full consideration to the CAIVRS information, and any subsequent clarifying information provided, in applying VA credit standards.

- Consider the terms of any repayment plan in analyzing monthly debt payments.
- Consider any delinquencies in determining creditworthiness.

CAIVRS information is only for the lender’s and applicant’s use in processing the loan application. Only those persons having responsibility for screening applicants and/or co-obligors may use CAIVRS. **Any other use is unauthorized.**

Continued on next page

6. Required Search for and Treatment of Debts Owed to the Federal Government, Continued

e. Applicant Presently Delinquent (continued)

If the CAIVRS screening indicates an applicant (or co-obligor) is presently delinquent or has had a foreclosure or a claim paid on a loan made, guaranteed or insured by a Federal agency, take the following actions:

| Step | Action | | | | | | | | |
|--------------------------------------|--|--------------------------------------|---------|-----------|--|-----------|--|-----------------|--|
| 1 | Suspend processing of the loan application. | | | | | | | | |
| 2 | <p>Contact the applicant or co-obligor for information regarding the loan default, foreclosure or claim.</p> <p>If a previous VA loan is involved, the applicant may call 1-800-827-0648 to make arrangements to repay the debt.</p> | | | | | | | | |
| 3 | <ul style="list-style-type: none"> • Contact the Federal agency that reported the applicant to CAIVRS if further information is needed. • Use the phone number provided by CAIVRS (Step 7 in the previous table). | | | | | | | | |
| 4 | If the CAIVRS-provided point of contact does not provide a satisfactory solution, [] the lender must contact the agency point(s) of contact in the following list. | | | | | | | | |
| | <table> <tr> <th>Program to Which the Default Relates</th><th>Contact</th></tr> <tr> <td>SBA loans</td><td> <p>Small Business Administration (8th floor) 409 Third Street, SW Washington, DC 20416 Telephone: 202-205-7541 Rosiland.Horton@sba.gov</p> </td></tr> <tr> <td>DVA loans</td><td> <p>U.S. Department of Veterans Affairs Debt Management Center P.O. Box 11930 Fort Snelling, MN 55111 Telephone: 1-800-827-0648 Fax: 612-970-5687 http://www.va.gov/debtman/</p> </td></tr> <tr> <td>Education loans</td><td> <p>Department of Education Customer Service 1-800-621-3115</p> </td></tr> </table> | Program to Which the Default Relates | Contact | SBA loans | <p>Small Business Administration (8th floor) 409 Third Street, SW Washington, DC 20416 Telephone: 202-205-7541 Rosiland.Horton@sba.gov</p> | DVA loans | <p>U.S. Department of Veterans Affairs Debt Management Center P.O. Box 11930 Fort Snelling, MN 55111 Telephone: 1-800-827-0648 Fax: 612-970-5687 http://www.va.gov/debtman/</p> | Education loans | <p>Department of Education Customer Service 1-800-621-3115</p> |
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| Education loans | <p>Department of Education Customer Service 1-800-621-3115</p> | | | | | | | | |

Continued on next page

6. Required Search for and Treatment of Debts Owed to the Federal Government, Continued

| | |
|--------------------------------------|--|
| f. Treatment of Federal Debts | <p>An applicant cannot be considered a satisfactory credit risk if he or she is presently delinquent or in default on any debt to the Federal Government until the delinquent account has been brought current or satisfactory arrangements have been made between the applicant and the Federal agency. The refinancing of a delinquent VA loan with an IRRRL satisfies this requirement.</p> <p>An applicant cannot be considered a satisfactory credit risk if he or she has a judgment lien against his or her property for a debt owed to the Government until the judgment is paid or otherwise satisfied.</p> |
|--------------------------------------|--|

7. Credit History

Change Date

September 15, 2004, Change 4
This section has been changed to create subsection lettering.

**a. Credit
Report
Standards**

Credit reports used in analyzing VA loans must be either:

- Three-file Merged Credit Reports (MCR), or
- Residential Mortgage Credit Reports (RMCR).

The credit report must be less than 120 days old (180 days for new construction).

- For automatically closed loans, the date of the credit report must be within 120 days of the date the note is signed (180 days for new construction).
- For prior approval loans, the date of the credit report must be within 120 days of the date the application is received by VA (180 days for new construction).

If an RMCR is Used

The standards applicable to an RMCR include, but are not limited to, the following:

- The report must be prepared by a reputable credit reporting agency.
- Each account with a balance must have been checked with the creditor within 90 days of the date of the credit report.
- For each debt listed, the report must provide the creditor's name, date the account was opened, high credit, current status, required payment, unpaid balance, and payment history.
- The report must name at least 2 national repositories of credit records contacted for each location in which the borrower has resided during the most recent 2 years.
 - Separate repository inquiries are required for any coborrowers with individual credit records.
- The report must include all available public records information that is not considered obsolete under the Fair Credit Reporting Act; such as bankruptcies, judgments, law suits, foreclosures and tax liens.
- The RMCR must be an original report, with no erasures, whiteouts, or alterations.
- The report must contain a 24 month employment and residency history.
- All inquiries made within the last 90 days must be included on the report.

Continued on next page

7. Credit History, Continued

**a. Credit
Report
Standards
(continued)**

VA may decline to accept a credit report which does not meet these standards.

VA will notify the lender and the credit reporting agency of how quality standards are not being met. If the problem continues, VA will inform all participating lenders that credit reports from the particular credit reporting agency are unacceptable.

**b. Verification
and Rating of
Debts and
Obligations**

See **section 5 of this chapter** for requirements of verification.

**c. How to
Analyze Credit**

The applicant's past repayment practices on obligations are the best indicator of his or her willingness to repay future obligations. Emphasis should be on the applicant's overall payment patterns rather than isolated occurrences of unsatisfactory repayment. Determine whether the applicant (and spouse, if applicable) is a satisfactory credit risk based on a careful analysis of the credit report and other credit data.

Rent and Mortgage Payment History

The applicant's rental history and any outstanding, assumed, or recently retired mortgages must be verified and rated.

Housing expense payment history is often the best indicator of how motivated the applicant is to make timely mortgage payments in the future.

Absence of Credit History

For applicants with no established credit history, base the determination on the applicant's payment record on utilities, rent, automobile insurance, or other expenses that applicant has paid.

Continued on next page

7. Credit History, Continued

**c. How to
Analyze Credit
(continued)**

Absence of a credit history is **not** generally considered an adverse factor. It may result when

- recently discharged veterans have not yet developed a credit history
- applicants have routinely used cash rather than credit, and/or
- applicants have not used credit since some disruptive credit event such as bankruptcy or debt pro-ration through consumer credit counseling. In these cases, develop evidence of timely payment of noninstallment obligations such as rent and utilities since the disruptive credit event.

Reference: For bankruptcy cases, see “Bankruptcy” in this section.

Accounts in the Spouse’s Name

Under [ECOA](#) - Upon the applicant’s request, the lender must consider any account reported in the name of the applicant’s spouse or former spouse that the applicant can demonstrate accurately reflects the applicant’s creditworthiness.

Consideration of the Spouse’s Credit History

[ECOA](#) prohibits requests for, or consideration of, the credit of a spouse who will not be contractually obligated on the loan except

- if the applicant is relying on alimony, child support, or maintenance payments from the spouse (or former spouse), or
- in community property states.
 - If the property is located in a community property state, VA requires consideration of the spouse’s credit (whether or not the spouse will be personally liable on the note and whether or not the applicant and spouse choose to have the spouse’s income considered).
 - If a married veteran wants to obtain the loan in his or her name only, the veteran may do so without regard to the spouse’s credit only in a non-community property state.

Continued on next page

7. Credit History, Continued

**c. How to
Analyze Credit
(continued)**

Adverse Data

In circumstances not involving bankruptcy, satisfactory credit is generally considered to be reestablished after the veteran, or veteran and spouse, have made satisfactory payments for 12 months after the date of the last derogatory credit item.

If the applicant and/or spouse are determined satisfactory credit risks in spite of derogatory credit information, include an explanation of the basis for the determination.

For unpaid debts or debts that have not been paid timely pay-off of these debts after the acceptability of applicant's credit is questioned does **not** alter the unsatisfactory record of payment.

Lenders may consider a veteran's claim of bona fide or legal defenses regarding unpaid debts except when the debt has been reduced to judgment.

Collection accounts do not necessarily have to be paid off as a condition for loan approval. Account balances reduced to judgment by a court must either be paid in full or subject to a repayment plan with a history of timely payments.

**d. Consumer
Credit
Counseling
Plan**

If a veteran, or veteran and spouse, have prior adverse credit and are participating in a Consumer Credit Counseling plan, they may be determined to be a satisfactory credit risk if they demonstrate 12 months' satisfactory payments and the counseling agency approves the new credit.

If a veteran, or veteran and spouse, have good prior credit and are participating in a Consumer Credit Counseling plan, such participation is to be considered a neutral factor, or even a positive factor, in determining creditworthiness. Do not treat this as a negative credit item if the veteran entered the Consumer Credit Counseling plan before reaching the point of having bad credit.

Continued on next page

7. Credit History, Continued

- e. Bankruptcy** The fact that a bankruptcy exists in an applicant's (or spouse's) credit history does **not** in itself disqualify the loan. Develop complete information on the facts and circumstances of the bankruptcy. Consider the reasons for the bankruptcy and the type of bankruptcy filing.

Bankruptcy Filed Under the Straight Liquidation and Discharge Provisions of the Bankruptcy Law

You may disregard a bankruptcy discharged more than 2 years ago.

If the bankruptcy was discharged within the last 1 to 2 years, it is probably **not** possible to determine that the applicant or spouse is a satisfactory credit risk unless both of the following requirements are met:

- The applicant or spouse has obtained consumer items on credit subsequent to the bankruptcy and has satisfactorily made the payments over a continued period, and
- the bankruptcy was caused by circumstances beyond the control of the applicant or spouse such as unemployment, prolonged strikes, medical bills not covered by insurance, and so on, and the circumstances are verified. Divorce is **not** generally viewed as beyond the control of the borrower and/or spouse. If the bankruptcy was caused by failure of the business of a self-employed applicant, it may be possible to determine that the applicant is a satisfactory credit risk if
 - the applicant obtained a permanent position after the business failed
 - there is no derogatory credit information prior to self-employment
 - there is no derogatory credit information subsequent to the bankruptcy, and
 - failure of the business was **not** due to the applicant's misconduct.

If a borrower or spouse has been discharged in bankruptcy within the past 12 months, it will **not** generally be possible to determine that the borrower or spouse is a satisfactory credit risk.

Continued on next page

7. Credit History, Continued

e. Bankruptcy (continued)

Petition Under Chapter 13 of the Bankruptcy Code

This type of filing indicates an effort to pay creditors. Regular payments are made to a court-appointed trustee over a 2 to 3 year period or, in some cases, up to 5 years, to pay off scaled down or entire debts.

If the applicant has finished making all payments satisfactorily, the lender may conclude that the applicant has reestablished satisfactory credit.

If the applicant has satisfactorily made at least 12 months' worth of the payments and the Trustee or the Bankruptcy Judge approves of the new credit, the lender may give favorable consideration.

f. Foreclosures

The fact that a home loan foreclosure (or deed-in-lieu of foreclosure) exists in an applicant's (or spouse's) credit history does **not** in itself disqualify the loan.

- Develop complete information on the facts and circumstances of the foreclosure.
- Apply the guidelines provided for bankruptcies filed under the straight liquidation and discharge provisions of the bankruptcy law. See the preceding heading entitled "Bankruptcy."

If the foreclosure was on a VA loan, the applicant may not have full entitlement available for the new loan. Ensure that the applicant's Certificate of Eligibility reflects sufficient entitlement to meet any secondary marketing requirements of the lender.

8. Documentation for Automated Underwriting Cases

- Change Date** September 15, 2004, Change 4
- This section has been changed to create subsection lettering.
 - Subsection a has been changed to add the approval of Chase's automated underwriting system Zippy.
 - Subsections e and f have been changed to delete references to CRV. This is now an obsolete form.
-

a. General VA has approved [Freddie Mac's Loan Prospector](#), [Fannie Mae's DU](#) (and the pmiAura System for VA), CLUES (for loans originated by Countrywide) and [Zippy \(for loans originated by Chase\)](#) automated underwriting systems (AUS) for use in connection with VA guaranteed home loans. These systems incorporate VA's credit standards and processing requirements.

Lenders may use certain reduced documentation requirements on cases processed with approved AUSs. The level of reduced documentation depends on the risk classification assigned. The systems use slightly different terminology such as Approve or Accept. The tables in this section give a general description of documentation waivers. Please note that the documentation requirements are the same for these cases as for non-AUS cases, except for any differences cited in the tables.

Data Integrity

It is imperative that the data entered into the automated underwriting system be accurately verified. The data utilized by the system must be supported by source documentation obtained by the lender. Inaccurate or unverified data will result in invalidation of the risk classification. Under certain circumstances it could also result in a finding of material misrepresentation, which could affect the validity of the guaranty.

Continued on next page

8. Documentation for Automated Underwriting Cases, Continued

**b.
Underwriter's
Certification**

Because the Loan Prospector system will be making the determination that the loan satisfies credit and income requirements, cases receiving an "Accept" or "Approve" rating will not require the underwriter's certification on VA Form [26-6393](#), Loan Analysis (items 50 through 54). Instead, lenders will need to complete the following certification on "Accept" or "Approve" loans:

"I, the undersigned lender, hereby certify that case number (insert VA loan number) was processed through _____ and received an 'Accept/Approve' rating. I further certify that all information entered into the system has been verified and that any credit discrepancies have been reconciled."

A representative of the lender must sign this certification. The certification and a copy of the AUS Feedback Certificate (which indicates the risk classification) must be maintained with the origination package.

**c.
Documentation
Guidelines For
Credit History**

Refer to the following table for Documentation guidelines for credit history.

| Subject and Reference | Documentation Classification | |
|--|---|--|
| | Documentation Guidelines and Reductions for Refer | Additional Documentation Reductions for Accept/Approve |
| Types of credit reports used in reconciliation (section 7 of this chapter) | Use any of the following if ≤ 120 days old. <ul style="list-style-type: none">• All in-file reports• Selected in-file reports• Merged credit report• RMCR | Same as Refer. |
| Explanation of discrepancies in reported debt (section 5 of this chapter) | No explanation is required | Same as Refer. |
| Rental payment history (section 7 of this chapter) | Provide a 12 month rental history directly from landlord, through information shown on credit report or by cancelled checks. | No verification of rent is required. |

Continued on next page

8. Documentation for Automated Underwriting Cases, Continued

c. Documentation Guidelines For Credit History (continued)

| Subject and Reference | Documentation Classification | |
|--|---|---|
| Verification of significant nonmortgage debt (section 5 of this chapter) | Obtain direct verification for significant debts not reported on the credit report. Note: Significant means that the debt has a monthly payment exceeding 2% of the stable monthly income for all borrowers. | Same as Refer. Note: Perform manual downgrade to Refer if direct verification reveals more than 1x30 day late payment in the past 12 months for any of the omitted debts. |
| Mortgage payment history (section 7 of this chapter) | Obtain direct verification when ratings are not available on mortgages that are any of the following: <ul style="list-style-type: none"> • Outstanding • Assumed • Recently retired A written explanation of mortgage payment history is required for borrowers with more than 1x30 day late payment for all mortgages for the past 12 months. | Perform manual downgrade to Refer for any mortgage debt with more than 1x30 day late payment in the past 12 months. |
| Account balances (section 7 of this chapter) | If a mortgage or other significant debt is listed on the credit report as past due and was last updated ≥ 90 days, verify current status of <u>past due debt</u> . | Same as Refer, however if rating is currently ≥ 90 days past due, manually downgrade to REFER . |
| Derogatory credit information (section 7 of this chapter) | Obtain explanation for derogatory credit. Explain assessment of creditworthiness on VA Form 26-6393 , Loan Analysis. | No determination of ratios or credit worthiness is required. |
| Alimony and/or child support payments (section 2 of this chapter) | Provide the following: <ul style="list-style-type: none"> • Proof of deposits on bank statements for 3 months • Front page and details of support payments from the divorce decree, indicating evidence of at least 3 years continuance. | Same as Refer. |

Continued on next page

8. Documentation for Automated Underwriting Cases, Continued

- d. **Documentation Guidelines for Borrowers-Not Self Employed**
- Refer to the following table for documentation guidelines for employment/income for borrowers who are not self-employed.

| Subject and Reference | Documentation Classification | |
|--|---|--|
| | Documentation Guidelines and Reductions for Refer | Additional Documentation Reductions for Accept/Approve |
| Employment gaps | No explanation for employment gaps is required if the gaps are <30 days. | No explanation for employment gaps is required if gaps are <60 days. |
| Verifying current employment for borrowers who are not self-employed (section 2 of this chapter) | <p>Document telephone contact verifying borrower's current employer.</p> <p>Use pay stubs covering at least 1 full month of employment and contains the following:</p> <ul style="list-style-type: none">• Year-to-date (YTD) information• Bonus information• Overtime information. | Same as Refer. |

Continued on next page

8. Documentation for Automated Underwriting Cases, Continued

d. Documentation Guidelines for Borrowers-Not Self Employed (continued)

| Subject and Reference | Documentation Classification | |
|---|---|--|
| Verifying previous employment (section 2 of this chapter) | <p>Use a Verification of Employment (VOE) or any of the following, covering the 2 year period prior to closing:</p> <ul style="list-style-type: none"> • W-2 Forms • Income information obtained from the IRS via 1 of the following forms: <ul style="list-style-type: none"> – Form 8821 (or alternate form acceptable to the IRS that collects comparable information) – Form 4506 (or alternate form acceptable to the IRS that collects comparable information) | <p>No VOE is required if the borrower has been with the same employer for 1 year and W-2 Forms for 1 previous year have been collected.</p> <ul style="list-style-type: none"> • No W-2 Forms are required for a borrower on active duty. • No W-2 Forms are required if all of the following are met: <ul style="list-style-type: none"> – Borrower with same employer ≥ 2 years – Employer phone contact verifies the length of employment and current status (still employed) – Borrower not self-employed or commissioned – Bonus, overtime, or secondary income not needed to qualify – Stable monthly income to be determined by using current base pay only (rather than total earnings) – Borrower signs 1 of the following for the previous 2 tax years: <ul style="list-style-type: none"> – - Form 8821, and – - Form 4506. |

Continued on next page

8. Documentation for Automated Underwriting Cases, Continued

- e. **Documentation Guidelines for Borrowers-Self Employed**
- Refer to the following table for documentation guidelines for employment/income for borrowers who are self-employed.

| Subject and Reference | Documentation Classification | |
|---|---|--|
| | Documentation Guidelines and Reductions for Refer | Additional Documentation Reductions for Accept/Approve |
| Individual tax returns for self-employed borrowers (section 2 of this chapter) | <p>Provide 1 of the following, with all line items captured:</p> <ul style="list-style-type: none"> Signed copies of individual tax returns for the most recent 2 year period Individual income information obtained from the IRS via 1 of the following forms: <ul style="list-style-type: none"> Form 8821 (or an alternate form acceptable to the IRS that collects comparable information) Form 4506 (or an alternate form acceptable to the IRS that collects comparable information) | Same as Refer. |
| Balance sheets and profit and loss statements for self-employed borrowers (section 2 of this chapter) | <p>No balance sheet or YTD Profit and Loss (YTD P&L) is required if any of the following occur:</p> <ul style="list-style-type: none"> Origination date is ≤ 7 months from the business' fiscal year end (for which tax returns or information from the IRS via Form 8821 or Form 4506 were provided) | No balance sheet or YTD P&L is required. |

Continued on next page

8. Documentation for Automated Underwriting Cases, Continued

e. Documentation Guidelines for Borrowers-Self Employed (continued)

| Subject and Reference | Documentation Classification | |
|--|---|--|
| | Documentation Guidelines and Reductions for Refer | Additional Documentation Reductions for Accept/Approve |
| Business tax returns for self-employed borrowers (section 2 of this chapter) | <p>Provide 1 of the following, with all line items captured:</p> <ul style="list-style-type: none"> • Signed copies of business tax returns for the most recent 2 year period • Business income information obtained from the IRS via 1 of the following forms: <ul style="list-style-type: none"> – Form 8821 (or an alternate form acceptable to the IRS that collects comparable information) – Form 4506 (or an alternate form acceptable to the IRS that collects comparable information) | <p>No business tax returns are required if all of the following conditions are met:</p> <ul style="list-style-type: none"> • Borrower proves ownership of the business for at least the past 5 years. • Individual tax returns reflect consistent income for the past 2 years. • Funds for down payment or closing costs are not from the business. |

Continued on next page

8. Documentation for Automated Underwriting Cases, Continued

- f. **Documentation Guidelines for Assets** Refer to the following table for documentation guidelines for assets.

| Subject and Reference | Documentation Classification | |
|--|--|--|
| | Documentation Guidelines and Reductions for Refer | Additional Documentation Reductions for Accept/Approve |
| Verify closing costs (section 4 subsection a of this chapter) | Verify veteran's source of funds for payment of any difference between sales price and loan amount plus closing costs, if sales price exceeds reasonable value established by the Notice of Value (NOV). | No verification of veteran's source of funds is required if closing costs plus difference between the sales price of the property and the base loan amount is <4% of the lesser of the following: <ul style="list-style-type: none">• Sales price• Reasonable value established by a [] NOV. |
| Verify assets to close in applicant's name (section 4 of this chapter) | Provide original bank statements or certified true copies covering the most recent 2 month period in lieu of a Verification of Deposit (VOD). | Provide original bank statements or certified true copies covering most recent 1 month period in lieu of a VOD. |

9. How to Complete VA Form 26-6393, Loan Analysis

Change Date

September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
 - Subsection b has been changed to provide clarification of Item 19 of VA Form [26-6393](#).
 - Subsection d has been changed to reference “child” care instead of “dependant” care.
 - Links to documents have been included. References to the http address have been removed.
-

a. General

In order to properly enter information on VA Form [26-6393](#), the underwriter must understand and apply the guidelines provided in the preceding sections of this chapter.

Self-explanatory items are **not** discussed in this section.

b. Section C, Estimated Monthly Shelter Expenses

Special instructions are listed in the following table.

Please note, item 19 of VA Form [26-6393](#) should be left blank. Maintenance and utility costs are now figured at 14¢ per square foot and listed in item 20.

| Item | Special Instructions |
|------|--|
| 16 | If taxes are expected to increase, use the increased amount. |
| 17 | Include the flood insurance premium for properties located in special flood hazard areas. |
| 18 | If special assessments are anticipated, use the anticipated amount. |
| 20 | Calculate maintenance and utility costs using 14¢ per square foot. <u>Example:</u> a 1500 square foot home would have a combined maintenance and utility cost of \$210 (1500sq X .14). |
| 21 | For condominiums or houses in a PUD (planned unit development), include the monthly amount of maintenance assessment payable to the homeowner’s association. If the assessment is less than the maximum provided in the covenants or master deed and it appears likely that the assessment will be insufficient for operation of the condominium or PUD, include the maximum amount the veteran could be charged. |

Continued on next page

9. How to Complete VA Form 26-6393, Loan Analysis, Continued

**c. Section D,
Debts and
Obligations**

List all known debts and obligations of the applicant and spouse including any alimony and/or child support payments.

Place a check mark in the (✓) column next to any “significant” debt or obligation. See the topic “Analysis of Debts and Obligations” in [section 5 of this chapter](#), for an explanation of “significant.”

Job Related Expense

Include any costs for [child](#) care, significant commuting costs, and any other direct or incidental costs associated with the applicant’s (or spouse’s) employment. Checkmark this item if total job related expenses are significant.

**d. Item 33,
Federal Income
Tax**

Enter the applicant’s estimated monthly Federal income tax. If the applicant has a Mortgage Credit Certificate, reduce the Federal income tax by the estimated tax credit.

Reference: See the topic “Income Tax Credits from Mortgage Credit Certificates” in [section 3 of this chapter](#).

**e. Item 44,
Balance
Available for
Family Support**

Enter the appropriate residual income amount from the following tables in the “guideline” box. Residual income is the amount of net income remaining (after deduction of debts and obligations and monthly shelter expenses) to cover family living expenses such as food, health care, clothing, and gasoline.

The numbers are based on data supplied in the CES (Consumer Expenditures Survey) published by the Department of Labor’s [Bureau of Labor Statistics](#). They vary according to loan size, family size, and region of the country.

Special Instructions for Using Tables

Count **all** members of the household (without regard to the nature of the relationship) when determining “family size,” including

- an applicant’s spouse who is **not** joining in title or on the note, and
 - any other individuals who depend on the applicant for support. For example, children from a spouse’s prior marriage who are not the applicant’s legal dependents.
-

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9. How to Complete VA Form 26-6393, Loan Analysis, Continued

**e. Item 44,
Balance
Available for
Family Support
(continued)**

Special Instructions for Using Tables (continued)

Exception: The lender may omit any individuals from “family size” who are fully supported from a source of verified income which, for whatever reason, is **not** included in effective income in the loan analysis. For example

- a spouse not obligated on the note who has stable and reliable income sufficient to support his or her living expenses, or
- a child for whom sufficient foster care payments or child support is received regularly.

Reduce the residual income figure (from the following tables) by a minimum of 5% if

- the applicant or spouse is an active-duty or retired serviceperson, and
- there is a clear indication that he or she will continue to receive the benefits resulting from use of military-based facilities located near the property.

Use 5% unless the VA office of jurisdiction has established a higher percentage, in which case, apply the specified percentage for that jurisdiction.

A key to the geographic regions is listed in the following tables.

| Table of Residual Incomes by Region For loan amounts of \$79,999 and below | | | | |
|---|--|----------------|--------------|-------------|
| Family Size | Northeast | Midwest | South | West |
| 1 | \$390 | \$382 | \$382 | \$425 |
| 2 | \$654 | \$641 | \$641 | \$713 |
| 3 | \$788 | \$772 | \$772 | \$859 |
| 4 | \$888 | \$868 | \$868 | \$967 |
| 5 | \$921 | \$902 | \$902 | \$1,004 |
| over 5 | Add \$75 for each additional member up to a family of 7. | | | |

Continued on next page

9. How to Complete VA Form 26-6393, Loan Analysis, Continued

e. Item 44, Balance Available for Family Support (continued)

| Table of Residual Incomes by Region For loan amounts of \$80,000 and above | | | | |
|---|--|----------------|--------------|-------------|
| Family Size | Northeast | Midwest | South | West |
| 1 | \$450 | \$441 | \$441 | \$491 |
| 2 | \$755 | \$738 | \$738 | \$823 |
| 3 | \$909 | \$889 | \$889 | \$990 |
| 4 | \$1,025 | \$1,003 | \$1,003 | \$1,117 |
| 5 | \$1062 | \$1,039 | \$1,039 | \$1,158 |
| over 5 | Add \$80 for each additional member up to a family of 7. | | | |

| Key to Geographic Regions Used in the Preceding Tables | | | |
|---|---|--|--|
| Northeast | Connecticut Maine Massachusetts | New Hampshire New Jersey New York | Pennsylvania Rhode Island Vermont |
| Midwest | Illinois Indiana Iowa Kansas | Michigan Minnesota Missouri Nebraska | North Dakota Ohio South Dakota Wisconsin |
| South | Alabama Arkansas Delaware District of Columbia Florida Georgia | Kentucky Louisiana Maryland Mississippi North Carolina Oklahoma | Puerto Rico South Carolina Tennessee Texas Virginia West Virginia |
| West | Alaska Arizona California Colorado | Hawaii Idaho Montana Nevada | New Mexico Oregon Utah Washington Wyoming |

Continued on next page

9. How to Complete VA Form 26-6393, Loan Analysis, Continued

**f. Item 45,
Debt-to-Income
Ratio**

VA's debt-to-income ratio is a ratio of total monthly debt payments (housing expense, installment debts, and so on) to gross monthly income.

Add: Items 15 + 16 + 17 + 18 + 21 + 41 = Debt

Add: Items 32 + 39* = Income

Divide: Debt ÷ Income = Debt-to-Income Ratio

Round: To the nearest 2 digits

The "Debt-to-Income Ratio" heading in **section 10 of this chapter** contains special procedures to apply if the ratio exceeds 41%.

*Tax-free income may be "grossed up" for purposes of calculating the debt-to-income ratio only (**not** residual income). This is a tool that may be used to lower the debt ratio for veterans who clearly qualify for the loan. "Grossing up" involves adjusting the income upward to a pre-tax or gross income amount which, after deducting state and Federal income taxes, equals the tax-exempt income. Use current income tax withholding tables to determine an amount which can be prudently employed to adjust the borrower's actual income. Do not add non-taxable income to taxable income before "grossing up."

Tax-free income includes certain military allowances, child support payments, workers' compensation benefits, disability retirement payments and certain types of public assistance payments. Verify that the income is indeed tax-free before "grossing up."

If "grossing up" is used, indicate such and provide the "grossed up" ratio in item 48, "Remarks."

**g. Item 46, Past
Credit Record**

Indicate whether the applicant (and spouse, if applicable) is a satisfactory or unsatisfactory credit risk based on a complete analysis of credit data.

10. How to Analyze the Information on VA Form 26-6393

Change Date

September 15, 2004, Change 4
This section has been changed to create subsection lettering.

**a. Residual
Income**

VA's minimum residual incomes (balance available for family support) are a guide. They should not automatically trigger approval or rejection of a loan. Instead, consider residual income in conjunction with all other credit factors.

An obviously inadequate residual income alone can be a basis for disapproving a loan.

If residual income is marginal, look to other indicators such as the applicant's credit history, and in particular, whether and how the applicant has previously handled similar housing expense.

Consider whether the purchase price of the property may affect family expense levels. For example, a family purchasing in a higher priced neighborhood may feel a need to incur higher-than-average expenses to support a lifestyle comparable to that in their environment, whereas a substantially lower priced home purchase may not compel such expenditures.

Also consider the ages of the applicant's dependents in determining the adequacy of residual income.

Continued on next page

10. How to Analyze the Information on VA Form 26-6393, Continued

b. Debt-to- Income Ratio

VA's debt-to-income ratio is a ratio of total monthly debt payments (housing expense, installment debts, and so on) to gross monthly income. It is a guide and, as an underwriting factor, it is secondary to the residual income. It should not automatically trigger approval or rejection of a loan. Instead, consider the ratio in conjunction with all other credit factors.

A ratio greater than 41% requires close scrutiny unless

- the ratio is greater than 41% solely due to the existence of tax-free income (Put notation regarding the tax-free income in the loan file or calculate an adjusted, smaller ratio based on "grossing up" of the tax-free income.), or
- residual income exceeds the guideline by at least 20%.

Loans Closed Automatically with Ratio Greater than 41%

Include a statement justifying the reasons for approval, signed by the underwriter's supervisor, unless residual income exceeds the guideline by at least 20%. The statement must

- not be perfunctory, or
 - list the compensating factors justifying approval of the loan.
-

c. Credit History

A poor credit history alone is a basis for disapproving a loan.

If credit history is marginal, look to other indicators such as residual income.

Continued on next page

10. How to Analyze the Information on VA Form 26-6393, Continued

d.
Compensating
Factors

Compensating factors may affect the loan decision. These factors are especially important when reviewing loans which are marginal with respect to residual income or debt-to-income ratio. They cannot be used to compensate for unsatisfactory credit.

Valid compensating factors should represent unusual strengths rather than mere satisfaction of basic program requirements. For example, the fact that an applicant has sufficient assets for closing purposes, or meets the residual income guideline, is not a compensating factor.

Valid compensating factors should logically be able to compensate (to some extent) for the identified weakness in the loan. For example, significant liquid assets may compensate for a residual income shortfall whereas long-term employment would not.

Compensating factors include, but are not limited to the following:

- Excellent credit history
- Conservative use of consumer credit
- Minimal consumer debt
- Long-term employment
- Significant liquid assets
- Sizable down payment
- The existence of equity in refinancing loans
- Little or no increase in shelter expense
- Military benefits
- Satisfactory homeownership experience
- High residual income
- Low debt-to-income ratio
- Tax credits for child care, and
- Tax benefits of home ownership.

Continued on next page

10. How to Analyze the Information on VA Form 26-6393,

Continued

**e. Compare
What Shelter
Expenses will
be to What
Applicant Pays
Now**

Closely scrutinize a case in which the applicant will be paying significantly higher shelter expenses than he or she currently pays. Consider the

- ability of the applicant and spouse to accumulate liquid assets; such as cash and bonds, and
- amount of debts incurred while paying a lesser amount for shelter.

If an application shows little or no capital reserves and excessive obligations, it may not be reasonable to conclude that a substantial increase in shelter expenses can be absorbed.

11. Examples of Underwriting Deficiencies

| | |
|--------------------|---|
| Change Date | September 15, 2004, Change 4 This section has been changed to create subsection lettering. |
|--------------------|---|

| | |
|-------------------|--|
| a. Purpose | Because of the high loan-to-value ratios of VA-guaranteed loans, it is critical that underwriters use sound judgment. The underwriting deficiencies listed in this section represent a sample of actual deficiencies found on VA loans that went into default. The deficiencies were of such significance that many of the loans should not have been made. |
|-------------------|--|

| | |
|--|--|
| b. Inadequate Development of Credit Information | <p>Deficiencies included</p> <ul style="list-style-type: none">• failure to compare documented information with the applicant's initial application• failure to question and investigate obvious discrepancies<ul style="list-style-type: none">– in the number of dependents or household size, and– between actual year-to-date average monthly earnings and the income claimed on the loan application• failure to question multiple Social Security numbers for an applicant• failure to determine future plans of an active-duty serviceperson whose separation from service is imminent, and• accepting an explanation for a bad credit history without documenting the circumstances alleged to have caused the credit problem, judgment, or bankruptcy. |
|--|--|

| | |
|---------------------------------|---|
| c. Missing Documentation | <p>Deficiencies included failure</p> <ul style="list-style-type: none">• to inquire about and document the payment history on previous home loans, including prior VA loans, and• to obtain documentation of employment history during the previous 2 years. |
|---------------------------------|---|

Continued on next page

11. Examples of Underwriting Deficiencies, Continued

d. Verification and Procedural Errors

Deficiencies included

- requiring the veteran to sign partially completed or blank forms
- permitting income or asset deposit information to be hand carried by the applicant, real estate/sales agent, or a party other than the lender's specifically-designated employee
- addressing verification forms to an individual chosen by the applicant rather than to the employer's personnel or payroll department, and
- obtaining multiple/revised credit reports without validating the need for the subsequent reports.

e. Income Analysis Errors

Deficiencies included

- showing that an applicant is a salaried employee when, in fact, the applicant works solely on a commission basis, is a contract employee, or is actually self-employed
- failure to use net profit or net income from Schedule C of IRS Form 1040 rather than the gross income of an applicant who is self-employed
- using short-term, temporary, or sporadic income to qualify an applicant for a loan, and
- Examples of unreliable income sources include
 - overtime pay in an industry or area that is experiencing an economic slowdown or decline
 - income from a second job even though the applicant does not have a record of steadily working 2 jobs
 - rental income even though the applicant does not have verified experience as a landlord, and
 - poorly documented income from self-employment.
- qualifying a marginal applicant for a loan by using a buydown or graduated payment mortgage without establishing that the applicant's income will keep pace with the scheduled increase in mortgage payments. This is especially important in times of low inflation and stagnant or declining real estate markets.

Continued on next page

11. Examples of Underwriting Deficiencies, Continued

**f. Other
Analysis Errors**

Deficiencies included

- failure to consider
 - changes in marital status or household size after application and prior to closing, and
 - pay statements showing deductions to creditors that are not shown on the application, credit reports, or deposit verifications
 - approving a loan solely on the basis of an emotional appeal from the applicant or spouse, the sales agent, seller, or other interested party. A decision or an inclination to reject a loan application should **not** be changed unless there is new and compelling information available to justify approving the loan.
 - approving high debt-to-income ratio loans with few or no valid compensating factors
 - using gift letters to offset past due obligations, pay off debts, and so on, without consideration of the credit risk implications of the past due obligations
 - ignoring debts, judgments, bankruptcies, alimony or child support obligations because they don't appear on the credit report, and
 - failure to reconcile a large increase in shelter expense with an undemonstrated ability to accumulate cash assets.
-

Chapter 8. Borrower Fees and Charges and the VA Funding Fee

In this Chapter This chapter contains the following topics.

| Topic | Topic Name | See Page |
|--------------|--|-----------------|
| 1 | VA Policy on Fees and Charges Paid by the Veteran-Borrower | 8-2 |
| 2 | Fees and Charges the Veteran-Borrower Can Pay | 8-3 |
| 3 | Fees and Charges the Veteran-Borrower Cannot Pay | 8-9 |
| 4 | Other Parties Fees and Charges for the Veteran-Borrower | 8-11 |
| 5 | Seller Concessions | 8-12 |
| 6 | What Happens to Fees and Charges If the Loan Never Closes | 8-14 |
| 7 | Fees and Charges That Can be Included In the Loan Amount | 8-15 |
| 8 | The VA Funding Fee | 8-17 |

1. VA Policy on Fees and Charges Paid by the Veteran-Borrower

Change Date

September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Policy

The VA home loan program involves a veteran's benefit. VA policy has evolved around the objective of helping the veteran to use his or her home loan benefit. Therefore, VA regulations limit the fees that the veteran can pay to obtain a loan.

Lenders must **strictly** adhere to the limitations on borrower-paid fees and charges when making VA loans.

b. The VA Funding Fee

In order to defray the cost of administering the VA home loan program, each veteran must pay a funding fee to VA at loan closing.

Congress may periodically change the funding fee rates to reflect changes in the cost of administering the program, or to assist a certain class of veterans.

2. Fees and Charges the Veteran-Borrower Can Pay

Change Date September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
- Subsection c changes the “Loan Prospector” reference to “Automated Underwriting.” The “Certificate of Reasonable Value (CRV)” reference has been updated to “Notice of Value (NOV).”

a. VA Regulations VA regulations at [38 CFR 36.4312](#) provide the list of fees and charges that the veteran can pay.

b. Overview The veteran can pay a maximum of:

- reasonable and customary amounts for any or all of the “Itemized Fees and Charges” designated by VA, plus
- a 1% flat charge by the lender, plus
- reasonable discount points.

Note: Some special provisions apply to construction, alteration, improvement and repair loans

Reference: [Section 2, subsection e](#), “Construction Loans.”

c. Itemized Fees and Charges The veteran may pay any or all of the following itemized fees and charges, in amounts that are reasonable and customary.

| Charge | Description |
|--------------------------------------|--|
| Appraisal and Compliance Inspections | <p>The veteran can pay the fee of a VA appraiser and VA compliance inspectors.</p> <ul style="list-style-type: none">• The veteran can also pay for a second appraisal if he or she is requesting reconsideration of value.• The veteran cannot pay for an appraisal requested by the lender or seller for reconsideration of value.• The veteran cannot pay for appraisals requested by parties other than the veteran or lender. |

Continued on next page

2. Fees and Charges the Veteran-Borrower Can Pay, Continued

c. Itemized Fees and Charges (continued)

| Charge | Description |
|--------------------------|---|
| Recording Fees | The veteran can pay for recording fees and recording taxes or other charges incident to recordation. |
| Credit Report | <p>The veteran can pay for the credit report obtained by the lender.</p> <p>For Automated Underwriting cases, the veteran may pay the evaluation fee of \$50 in lieu of the charge for a credit report. For “Refer” cases, the veteran may also pay the charge for a merged credit report, if required.</p> |
| Prepaid Items | The veteran can pay that portion of taxes, assessments, and similar items for the current year chargeable to the borrower and the initial deposit for the tax and insurance account. |
| Hazard Insurance | The veteran can pay the required hazard insurance premium. This includes flood insurance, if required. |
| Flood Zone Determination | <p>The veteran can pay the actual amount charged for a determination of whether a property is in a special flood hazard area, if made by a third party who guarantees the accuracy of the determination.</p> <ul style="list-style-type: none"> • The veteran can pay a charge for a life-of-the-loan flood determination service purchased at the time of loan origination. • A fee may not be charged for a flood zone determination made by the lender or a VA appraiser. |
| Survey | <p>The veteran can pay a charge for a survey, if required by the lender or veteran.</p> <p>Any charge for a survey in connection with a condominium loan must have the prior approval of VA.</p> |

Continued on next page

2. Fees and Charges the Veteran-Borrower Can Pay, Continued

c. Itemized Fees and Charges (continued)

| Charge | Description |
|--|---|
| Title Examination and Title Insurance | The veteran may pay a fee for title examination and title insurance, if any. If the lender decides that an environmental protection lien endorsement to a title policy is needed, the cost of the endorsement may be charged to the veteran. |
| Special Mailing Fees for Refinancing Loans | For refinancing loans only, the veteran can pay charges for Federal Express, Express Mail, or a similar service when the saved per diem interest cost to the veteran will exceed the cost of the special handling. |
| VA Funding Fee | Unless exempt from the fee, each veteran must pay a funding fee to VA. |
| Other Fees Authorized by VA | Additional fees attributable to local variances may be charged to the veteran only if specifically authorized by VA. The lender may submit a written request to the RLC for approval if the fee is: <ul style="list-style-type: none">• normally paid by the borrower in a particular jurisdiction, and• considered reasonable and customary in the jurisdiction. |

Whenever the charge relates to services performed by a third party, the amount paid by the borrower must be limited to the actual charge of that third party.

Example: If the lender obtains a credit report at a cost of \$30, the lender may only charge the borrower \$30 for the credit report. The lender may **not** charge \$35, even if it believes that a \$5 handling charge is fair.

Continued on next page

2. Fees and Charges the Veteran-Borrower Can Pay, Continued

c. Itemized Fees and Charges
(continued)

In addition, the borrower may **not** pay a duplicate fee for services that have already been paid for by another party.

Examples:

- An appraisal is completed on a property and paid for by a prospective purchaser, but the sale is never completed. A second purchaser applies for a loan before the validity period of the **Notice of Value (NOV)** expires. The lender uses the same **NOV**. The lender may **not** charge the second purchaser an appraisal fee if no second appraisal is ordered.
- A survey or flood zone determination, if the lender elects to use an existing survey or flood determination.
-

d. Lender's 1% Flat Charge

In addition to the “itemized fees and charges,” the lender may charge the veteran a flat charge not to exceed 1% of the loan amount.

- Calculate the 1% on the principal amount after adding the funding fee to the loan, if the funding fee is paid from loan proceeds (except IRRRLs).
- **Note:** For IRRRLs, use [VA Form 26-8923](#), IRRRL Worksheet for the Calculation.

The lender's flat charge is intended to cover all of the lender's costs and services which are **not** reimbursable as “itemized fees and charges.”

Continued on next page

2. Fees and Charges the Veteran-Borrower Can Pay, Continued

**d. Lender's 1%
Flat Charge**
(continued)

The following list provides examples of items that cannot be charged to the veteran as "itemized fees and charges." Instead, the lender must cover any cost of these items out of its flat fee.

- Lender's appraisals
- Lender's inspections, except in construction loan cases
- loan closing or settlement fees
- document preparation fees
- Preparing loan papers or conveyancing fees
- Attorney's services other than for title work
- photographs
- interest rate lock-in fees
- postage and other mailing charges, stationery, telephone calls, and other overhead
- amortization schedules, pass books, and membership or entrance fees
- escrow fees or charges

Examples of items that cannot be charged to the veteran:

- notary fees
- commitment fees or marketing fees of any secondary purchaser of the mortgage and preparation and recording of assignment of mortgage to such purchaser
- trustee's fees or charges
- loan application or processing fees
- fees for preparation of truth-in-lending disclosure statement
- fees charged by loan brokers, finders or other third parties whether affiliated with the lender or not, and
- tax service fees.

Continued on next page

2. Fees and Charges the Veteran-Borrower Can Pay, Continued

e. Construction Loans

The lender can charge an additional flat charge on construction, alteration, improvement, or repair loans.

- If the lender supervises the progress of construction and/or makes advances to a veteran in excess of 50% of the loan during construction, alteration, improvement, or repair
- then the lender may charge the veteran up to 2% of the loan amount in addition to the lender's 1% flat charge.
- **Example:** Total charges to the veteran in these cases would be, at a maximum, itemized fees and charges plus a 3% flat charge plus discount points.
- If the lender does not supervise the progress of construction or make advances to a veteran in excess of 50% of the loan during construction, alteration, improvement, or repair
- then the lender may charge the veteran up to 1% of the loan amount in addition to the lender's 1% flat charge.

Example: Total charges to the veteran in these cases would be, at a maximum, itemized fees and charges plus a 2% flat charge plus discount points.

This provision also applies to supplemental loans.

3. Fees and Charges the Veteran-Borrower Cannot Pay

| | |
|--------------------|---|
| Change Date | September 15, 2004, Change 4 <ul style="list-style-type: none">• This section has been changed to create subsection lettering.• Subsection a has been changed to reference “section” instead of “topic.” |
|--------------------|---|

| | |
|--|--|
| a. Lender’s Use of 1% Flat Charge | <p>The lender’s maximum allowable flat charge of 1% of the loan amount (or greater percentage in the case of construction loans) is intended to cover all of the lender’s costs and services which are not reimbursable as “itemized fees and charges.” The lender may pay third parties for services or do as it wishes with the funds from the flat charge, as long as the lender complies with the Real Estate Settlement Procedures Act (RESPA).</p> <p>Section 2, subsections c and d of this chapter provide some examples of items that cannot be charged to the veteran as “itemized fees and charges.”</p> <p>This section provides more examples of items that cannot be paid by the veteran, but can be paid out of the lender’s flat charge or by some party other than the veteran.</p> |
|--|--|

| | |
|---------------------------|---|
| b. Attorney’s Fees | <p>The lender may not charge the borrower for attorney’s fees. Reasonable fees for title examination work and title insurance can be paid, however, by the borrower. They are allowable itemized fees and charges.</p> <p>VA does not intend to prevent the veteran from seeking independent legal representation. Therefore, the veteran can independently retain an attorney and pay a fee for legal services in connection with the purchase of a home. Closing documents should clearly indicate that the attorney’s fee is not being charged by the lender, but is being paid by the veteran as part of an independent arrangement with an attorney.</p> |
|---------------------------|---|

Continued on next page

3. Fees and Charges the Veteran-Borrower Cannot Pay, Continued

c. Brokerage Fees

Fees or commissions charged by a real estate agent or broker in connection with a VA loan may **not** be charged to or paid by the veteran-purchaser.

While use of “buyer” brokers is not precluded, veteran-purchasers may **not**, under any circumstances, be charged a brokerage fee or commission in connection with the services of such individuals. Since information on property available for purchase and financing options is widely available to the public from a variety of sources, VA does not believe that preventing the veteran from paying buyer-broker fees will harm the veteran.

d. Prepayment Penalties

A veteran obtaining a VA refinancing loan cannot use loan proceeds to pay penalty costs for prepayment of an existing lien.

A veteran purchasing a property with a VA loan cannot pay penalty costs required to discharge any existing liens on the seller’s property.

e. HUD/FHA Inspection Fees for builders

In proposed construction cases in which the dwelling was constructed under [HUD](#) supervision, the cost of any inspections or re-inspections must be borne by the builder or sponsor and are **not** chargeable to the veteran-purchaser. This includes:

- re-inspections by VA or HUD of onsite or offsite work for which an escrow agreement was established, and
 - any additional re-inspections deemed necessary by VA to assure conformity with VA regulations.
-

4. Other Parties Fees and Charges for the Veteran-Borrower

Change Date

September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Policy

The seller, lender, or any other party may pay fees and charges, including discount points, on behalf of the borrower.

VA regulations limit charges “made against or paid by” the borrower. They do not limit the payment of fees and charges by other parties.

b. Exception

Excessive seller concessions are prohibited.

Reference: See section 5 of this chapter.

5. Seller Concessions

| | |
|--------------------|---|
| Change Date | September 15, 2004, Change 4 This section has been changed to create subsection lettering. |
|--------------------|---|

| | |
|----------------------|---|
| a. Definition | For purposes of this topic, a seller concession is anything of value added to the transaction by the builder or seller for which the buyer pays nothing additional and which the seller is not customarily expected or required to pay or provide. |
|----------------------|---|

| | |
|------------------------------|---|
| b. Seller Concessions | <p>Seller concessions include, but are not limited to, the following:</p> <ul style="list-style-type: none">• payment of the buyer's VA funding fee• prepayment of the buyer's property taxes and insurance• gifts such as a television set or microwave oven• payment of extra points to provide permanent interest rate buydowns• provision of escrowed funds to provide temporary interest rate buydowns, and• payoff of credit balances or judgments on behalf of the buyer. <p>Seller concessions do not include</p> <ul style="list-style-type: none">• payment of the buyer's closing costs, or• payment of points as appropriate to the market.• Example: If the market dictates an interest rate of 7½% with 2 discount points, the seller's payment of the 2 points would not be a seller concession. If the seller paid 5 points, 3 of these points would be considered a seller concession. |
|------------------------------|---|

| | |
|-----------------------|---|
| c. The Problem | In some localities, builders or sellers offer concessions as a competitive tool. In extreme cases, the concessions may entice unwary and unqualified veterans into home mortgages they cannot afford. The concessions may disguise the veteran's inability to qualify for the loan. |
|-----------------------|---|

Continued on next page

5. Seller Concessions, Continued

**d. The 4%
Limit**

Any seller concession or combination of concessions which exceeds 4% of the established reasonable value of the property is considered excessive, and unacceptable for VA-guaranteed loans.

Do **not** include normal discount points and payment of the buyer's closing costs in total concessions for determining whether concessions exceed the 4% limit.

6. What Happens to Fees and Charges If the Loan Never Closes

| | |
|--------------------|---|
| Change Date | September 15, 2004, Change 4 This section has been changed to create subsection lettering. |
|--------------------|---|

| | |
|-------------------------------------|--|
| a. Itemized Fees and Charges | The borrower's out-of-pocket expenses for itemized fees and charges already incurred, such as the appraisal and credit report, do not get refunded. |
|-------------------------------------|--|

| | |
|-----------------------|--|
| b. 1% Flat Fee | If the lender has already collected the 1% flat fee from the borrower, the lender must refund the fee. This applies to a loan that does not close for any reason, including the borrower going to another lender. |
|-----------------------|--|

7. Fees and Charges That Can be Included In the Loan Amount

| | |
|--------------------|--|
| Change Date | September 15, 2004, Change 4 This section has been changed to create subsection lettering and references. |
|--------------------|--|

a. All VA Loans For all types of VA loans, the loan amount may include the VA funding fee.

No other fees and charges or discount points may be included in the loan amount for regular purchase or construction loans.

Only refinancing loans may include other allowable fees and charges and discount points in the loan amount.

Note: Maximum loan amounts are discussed in section 3 of chapter 3.

b. “Cash-out” Refinancing Loans For “cash-out” refinancing loans, allowable fees and charges and discount points (as discussed in section 2 of this chapter) may be paid from cash proceeds of the loan, as long as total loan proceeds do **not** exceed 90% of the reasonable value of the property.

Only the VA funding fee (and the cost of any energy efficiency improvements) can be added to the 90% limit to increase the loan amount.

c. IRRRLs The following fees and charges may be included in an Interest Rate Reduction Refinancing Loan (IRRRL):

- Any allowable fees and charges discussed in section 2 of this chapter. This includes closing costs from the “Itemized Fees and Charges” list, the funding fee, and the lender’s flat charge.
 - However, there is **one** limitation unique to IRRRLs: While the borrower may pay any reasonable amount of discount points in cash, no more than two discount points can be included in the loan amount.
-

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7. Fees and Charges That Can be Included In the Loan Amount, Continued

d. Other Refinancing Loans

The following information applies to any loan to refinance:

- A construction loan
- an installment land sales contract, or
- a loan assumed by the veteran at an interest rate higher than that for the proposed refinancing loan.

The loan amount may include

- any allowable fees and charges discussed in **section 2 of this chapter**, and
- reasonable discount points.

However, maximum loan limits may not allow inclusion of the full amount of these items.

The maximum loan amount will be the lesser of the

- sum of the outstanding balance of the loan being refinanced plus allowable fees and charges (other than the funding fee) plus discount points, or
 - VA reasonable value of the property, plus
 - VA funding fee, plus
 - cost of any energy efficiency improvements.
-

8. The VA Funding Fee

| | |
|--------------------|---|
| Change Date | September 15, 2004, Change 4 <ul style="list-style-type: none">• This section has been changed to create subsection lettering and references.• Subsections a, i and j have been changed to update electronic payment and refunding of the VA funding fee through the Funding Fee Payment System.• Subsection h has been changed to update the funding fee tables. |
|--------------------|---|

| | |
|-----------------------------|--|
| a. The Lender's Role | <p>The lender must</p> <ul style="list-style-type: none">• verify the status of any veteran who may be exempt from paying the funding fee• determine the amount of funding fee owed by any non-exempt borrower• collect the appropriate fee from all non-exempt borrowers at loan closing• electronically remit the funds to VA in a timely manner through the Funding Fee Payment System (FFPS)• print proof of payment of the funding fee, and• submit proof that the funding fee has been paid or that the veteran is exempt from paying the funding fee to VA with the closed loan package. <p>Note: The funding fee may be paid from loan proceeds or cash from borrower.</p> |
|-----------------------------|--|

| | |
|--|---|
| b. Who is Exempt from Paying the Funding Fee? | <p>The following persons are exempt from paying the funding fee:</p> <ul style="list-style-type: none">• Veterans receiving VA compensation for service-connected disabilities.• Veterans who would be entitled to receive compensation for service-connected disabilities if they did not receive retirement pay.• Surviving spouses of veterans who died in service or from service-connected disabilities (whether or not such surviving spouses are veterans with their own entitlement and whether or not they are using their own entitlement on the loan). |
|--|---|

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8. The VA Funding Fee, Continued

c. How to Verify Exempt Status

The lender must verify exempt status by obtaining one of the following:

- A properly completed and signed [VA Form 26-8937](#), Verification of VA Benefit-Related Indebtedness, indicating the borrower's exempt status
- an award letter issued within 1 year of the date of the loan application indicating the veteran is entitled to receipt of VA disability compensation
- for a veteran who elected service retirement pay instead of VA compensation, a copy of the original VA notification of disability rating and documentation of the veteran's service retirement income, or
- indications on the Certificate of Eligibility that the borrower is entitled as an unmarried surviving spouse.

Consult VA if the borrower's status is unclear after reviewing the appropriate documents, or if conflicting information is found.

d. Loan Submissions Involving Exempt Borrowers

Submit a copy of the documentation used to verify exempt status with the closing package whenever no funding fee is remitted.

Exception: The lender does **not** have to submit the documentation if

- the borrower is an eligible surviving spouse, or
 - the documentation had been previously provided to VA with the loan application as verification of the veteran's income.
-

Continued on next page

8. The VA Funding Fee, Continued

e. If Exempt Status Cannot be Determined

If the veteran's exempt status cannot be verified prior to loan closing, the funding fee **must** be remitted as if the borrower was **not** exempt.

Indicate in the closing package that the veteran claims exempt status. VA will determine the borrower's status and refund the funding fee if appropriate.

Reference: Refer to the heading "Refunding Overpayments to the Veteran" in this section.

If the veteran has a pending disability compensation claim at the time of loan closing, the funding fee must be remitted as if the borrower was **not** exempt.

Advise the veteran to contact the VA regional loan center to request a refund if it is later determined that the veteran is entitled to compensation retroactively to a date prior to loan closing.

Reference: Refer to the heading "Refunding Overpayments to the Veteran" in this section.

f. How to Calculate the Funding Fee

For all loans except IRRRLs, apply the appropriate percentage (from the funding fee tables) to the loan amount.

If the funding fee is to be paid from loan proceeds, apply the percentage to the loan amount without the funding fee amount added to it.

For IRRRLs, calculate the funding fee by completing [VA Form 26-8923](#), Interest Rate Reduction Refinancing Loan Worksheet.

Reference: For joint loans, see "Calculation of the Funding Fee" in **section 1 of chapter 7**.

Continued on next page

8. The VA Funding Fee, Continued

g. How to Use the Funding Fee Tables

The lender must find the appropriate percentage in the tables using the following parameters:

- Is the veteran eligible for VA loan benefits through service in the regular military or the Reserves/National Guard? Examine the Certificate of Eligibility (COE). For Reserves/National Guard, the COE bears the notation, “RESERVES/NATIONAL GUARD - INCREASED FUNDING FEE,” and is buff-colored rather than green.
- Is the veteran a subsequent user of VA home loan benefits or obtaining his or her first VA loan? Examine the COE. An entitlement code of “5” indicates subsequent use, as does a loan number entered in the “Loan Number” column.
- What type of loan is the veteran obtaining? The funding fee varies depending upon whether the loan is a purchase or construction loan, an IRRRL, or a cash-out refinancing loan.
- Is the veteran making a downpayment of at least 5 or 10%?
 - Calculate what percentage of the sales price of the property the veteran is remitting as a downpayment.
 - The down payment may come from the veteran’s own resources or borrowed funds. **Except**, if the purchase price exceeds the reasonable value of the property, the difference between the purchase price and the reasonable value must be paid by the veteran in cash without borrowing.
- For construction loans only, equity in the secured property counts as a downpayment for calculating the funding fee.

Continued on next page

8. The VA Funding Fee, Continued

h. Funding Fee Tables

Purchase And Construction Loans

Note: The funding fee for regular military first time use from 1/1/04 to 9/30/04 is 2.2 percent. This figure drops to 2.15 percent on 10/1/04.

| Type of Veteran | Down Payment | Percentage for First Time Use | Percentage for Subsequent Use |
|-----------------------------|------------------------|-------------------------------|-------------------------------|
| Regular Military | None | 2.15% | 3.3% * |
| | 5% or more (up to 10%) | 1.50% | 1.50% |
| | 10% or more | 1.25% | 1.25% |
| Reserves/ National Guard | None | 2.4% | 3.3% * |
| | 5% or more (up to 10%) | 1.75% | 1.75% |
| | 10% or more | 1.5% | 1.5% |

Cash-Out Refinancing Loans

| Type of Veteran | Percentage for First Time Use | Percentage for Subsequent Use |
|-------------------------|-------------------------------|-------------------------------|
| Regular Military | 2.15% | 3.3% * |
| Reserves/National Guard | 2.4% | 3.3% * |

*The higher subsequent use fee does not apply to these types of loans if the veteran's only prior use of entitlement was for a manufactured home loan.

| Type of Loan | Percentage for Either Type of Veteran Whether First Time or Subsequent Use |
|--|--|
| Interest Rate Reduction Refinancing Loans | .50% |
| Manufactured Home Loans | 1.00% |
| Loan Assumptions | .50% |

Continued on next page

8. The VA Funding Fee, Continued

**i. How and
When to Remit
the Funding
Fee to VA**

Lenders must remit the VA funding fee via the [FFPS](#) within 15 calendar days of loan closing.

Lenders paying the fee more than 15 days after loan closing will automatically be assessed a 4% late fee. Fees paid more than 30 days late will automatically be assessed an interest charge in addition to the late fee.

**j. Refunding
Overpayments
to the Veteran**

A refund is appropriate if

- an exempt veteran paid a funding fee, or
- a miscalculation of the fee caused an overpayment.

Using the VA [FFPS](#), lenders can make appropriate corrections that may result in refunds being due.

If the veteran was overcharged, the following applies:

- A veteran who paid cash for the funding fee receives a cash refund for the amount of the overpayment.
 - In the case of a veteran who paid the funding fee out of loan proceeds, the lender must apply the overpayment against the loan balance. Submit evidence to VA that the refund was applied to the loan's principal balance.
-

VA LOAN PROCESSING

Excerpt from VA Lender's Handbook Chapter 5

The following documents must be obtained when processing all VA loan applications, with the exception of Interest Rate Reduction Refinance Loans (IRRRLs). IRRRLs are discussed later in the booklet.

Specific instructions for submitting VA loans for guaranty can be found in Chapter 5 of the VA Lender's Handbook.

Required Documents

| | |
|---|--|
| Certificate of Eligibility (VA Form 26-8320) | |
| URLA (Uniform Residential Loan Application) | |
| HUD/VA Addendum to URLA (VA Form 26-1802a) | |
| Interest Rate and Discount Disclosure Statement | |
| Residential Mortgage Credit Report, (RMCR) OR Three File Merged Credit Report | |
| Counseling Checklist for Military Homebuyers (VA Form 26-0592) | This form is <u>only</u> required if applicant is on active duty |
| Interest Rate Reduction Refinancing Loan Worksheet (VA Form 26-8923) | This form is <u>only</u> required when processing an Interest Rate Reduction Refinancing Loan. |
| Verification of VA Benefit Related Indebtedness (VA Form 26-8937) | This form is <u>only</u> required in certain instances, such as when a veteran states he or she is in receipt of VA disability compensation, pension or would be receiving VA disability compensation but for the receipt of retired pay. |
| Statement concerning veteran's membership in the Reserve or National Guard | Statement is not required on Interest Rate Reduction Refinancing Loans. |
| Loan Analysis (VA Form 26-6393) | |

VA LOAN PROCESSING, Continued

| | |
|--|---|
| Verification of Deposit (VA Form 26-8497a) OR Two months complete bank statements | |
| For Standard Verification of Employment (VOE), obtain VA Form 26-8497 | |
| For Standard Verification of Employment obtain an original or certified copy of the most recent pay stub. | |
| Sales contract or other purchase agreement with all addendums | |
| Master Certificate of Reasonable Value, (MCRV) OR VA or Lender Notification of Value (NOV) | The MCRV must include all applicable endorsements. |
| Uniform Residential Appraisal Report (URAR) (Freddie Mac Form/Fannie Mae Form 1004) | The URAR must include all attachments, photos and any documents revising or correcting the fee appraiser's report. |
| Any additional documentation | <i>Example:</i> Bankruptcy petition/discharge, veteran's statement addressing employment gaps, etc. Explanation for adverse credit. |

Employment Verification Services

In place of the standard documentation of employment, verification through one of VA's approved Employment Verification Services may be used. If using Employment Verification Services the following is required:

VA LOAN PROCESSING, Continued

Alternative Documentation

In place of the standard documentation of employment, Alternative Documentation may be submitted. If using the alternative documentation “ALT DOCS” method the following is required:

| | |
|--|---|
| Pay stubs covering at least the most recent 30 day period | Original or true copies of the original. |
| | |
| W-2 forms for the previous 2 years | Original or true copies of the original. |
| | |
| Telephone verification of the applicant’s current employment | If the employer is not willing to provide a telephone verification of employment or the W-2 forms are in any way questionable, standard documentation must be used. |

If processing a loan through one of the VA approved Automated Underwriting Systems (AUS) the documentation requested on the Feedback Certificate must be obtained.

The Feedback Certificate and the underwriter’s certification must be kept as a document and part of the loan origination package.

It is imperative that the data entered into the automated underwriting system be accurately verified. The data utilized by the system must be supported by source documentation obtained by the lender.

Documentation for Automated Underwriting Cases

Excerpt from VA Lender's Handbook Chapter 4

a. General

VA has approved [Freddie Mac's Loan Prospector](#), [Fannie Mae's DU](#) (and the pmiAura System for VA), CLUES (for loans originated by Countrywide) and [Zippy \(for loans originated by Chase\)](#) automated underwriting systems (AUS) for use in connection with VA guaranteed home loans. These systems incorporate VA's credit standards and processing requirements.

Lenders may use certain reduced documentation requirements on cases processed with approved AUSs. The level of reduced documentation depends on the risk classification assigned. The systems use slightly different terminology such as Approve or Accept. The tables in this section give a general description of documentation waivers. Please note that the documentation requirements are the same for these cases as for non-AUS cases, except for any differences cited in the tables.

Data Integrity

It is imperative that the data entered into the automated underwriting system be accurately verified. The data utilized by the system must be supported by source documentation obtained by the lender. Inaccurate or unverified data will result in invalidation of the risk classification. Under certain circumstances it could also result in a finding of material misrepresentation, which could affect the validity of the guaranty.

b. Underwriter's Certification

Because the Loan Prospector system will be making the determination that the loan satisfies credit and income requirements, cases receiving an "Accept" or "Approve" rating will not require the underwriter's certification on VA Form [26-6393](#), Loan Analysis (items 50 through 54). Instead, lenders will need to complete the following certification on "Accept" or "Approve" loans:

"I, the undersigned lender, hereby certify that case number (insert VA loan number) was processed through _____ and received an 'Accept/Approve' rating. I further certify that all information entered into the system has been verified and that any credit discrepancies have been reconciled."

A representative of the lender must sign this certification. The certification and a copy of the AUS Feedback Certificate (which indicates the risk classification) must be maintained with the origination package.

Continued on next page

Documentation for Automated Underwriting Cases, Continued

- c. **Documentation Guidelines For Credit History** Refer to the following table for Documentation guidelines for credit history.

| Subject and Reference | Documentation Classification | |
|--|--|---|
| | Documentation Guidelines and Reductions for Refer | Additional Documentation Reductions for Accept/Approve |
| Types of credit reports used in reconciliation (section 7 of this chapter) | Use any of the following if ≤ 120 days old. <ul style="list-style-type: none"> • All in-file reports • Selected in-file reports • Merged credit report • RMCR | Same as Refer. |
| Explanation of discrepancies in reported debt (section 5 of this chapter) | No explanation is required | Same as Refer. |
| Rental payment history (section 7 of this chapter) | Provide a 12 month rental history directly from landlord, through information shown on credit report or by cancelled checks. | No verification of rent is required. |
| Verification of significant nonmortgage debt (section 5 of this chapter) | Obtain direct verification for significant debts not reported on the credit report. Note: Significant means that the debt has a monthly payment exceeding 2% of the stable monthly income for all borrowers. | Same as Refer. Note: Perform manual downgrade to Refer if direct verification reveals more than 1x30 day late payment in the past 12 months for any of the omitted debts. |

Documentation for Automated Underwriting Cases, Continued

| | | |
|---|---|---|
| Mortgage payment history (section 7 of this chapter) | <p>Obtain direct verification when ratings are not available on mortgages that are any of the following:</p> <ul style="list-style-type: none"> • Outstanding • Assumed • Recently retired <p>A written explanation of mortgage payment history is required for borrowers with more than 1x30 day late payment for all mortgages for the past 12 months.</p> | Perform manual downgrade to Refer for any mortgage debt with more than 1x30 day late payment in the past 12 months. |
| Account balances (section 7 of this chapter) | If a mortgage or other significant debt is listed on the credit report as past due and was last updated ≥ 90 days, verify current status of <u>past due debt</u> . | Same as Refer, however if rating is currently ≥ 90 days past due, manually downgrade to REFER . |
| Derogatory credit information (section 7 of this chapter) | Obtain explanation for derogatory credit. Explain assessment of creditworthiness on VA Form 26-6393 , Loan Analysis. | No determination of ratios or credit worthiness is required. |
| Alimony and/or child support payments (section 2 of this chapter) | <p>Provide the following:</p> <ul style="list-style-type: none"> • Proof of deposits on bank statements for 3 months • Front page and details of support payments from the divorce decree, indicating evidence of at least 3 years continuance. | Same as Refer. |

d.
Documentation Guidelines for Borrowers-Not Self Employed

Refer to the following table for documentation guidelines for employment/income for borrowers who are not self-employed.

Documentation for Automated Underwriting Cases, Continued

| Subject and Reference | Documentation Classification | |
|--|---|--|
| | Documentation Guidelines and Reductions for Refer | Additional Documentation Reductions for Accept/Approve |
| Employment gaps | No explanation for employment gaps is required if the gaps are <30 days. | No explanation for employment gaps is required if gaps are <60 days. |
| Verifying current employment for borrowers who are not self-employed (section 2 of this chapter) | <p>Document telephone contact verifying borrower's current employer.</p> <p>Use pay stubs covering at least 1 full month of employment and contains the following:</p> <ul style="list-style-type: none"> • Year-to-date (YTD) information • Bonus information • Overtime information. | Same as Refer. |
| Verifying previous employment (section 2 of this chapter) | <p>Use a Verification of Employment (VOE) or any of the following, covering the 2 year period prior to closing:</p> <ul style="list-style-type: none"> • W-2 Forms • Income information obtained from the IRS via 1 of the following forms: <ul style="list-style-type: none"> – Form 8821 (or alternate form acceptable to the IRS that collects comparable information) – Form 4506 (or alternate form acceptable to the IRS that collects comparable information) | <p>No VOE is required if the borrower has been with the same employer for 1 year and W-2 Forms for 1 previous year have been collected.</p> <ul style="list-style-type: none"> • No W-2 Forms are required for a borrower on active duty. • No W-2 Forms are required if all of the following are met: <ul style="list-style-type: none"> – Borrower with same employer ≥ 2 years – Employer phone contact verifies the length of employment and current status (still employed) – Borrower not self-employed or commissioned – Bonus, overtime, or secondary income not needed to qualify – Stable monthly income to be determined by using current base pay only (rather than total earnings) – Borrower signs 1 of the following for the previous 2 tax years: <ul style="list-style-type: none"> – - Form 8821, and – - Form 4506. |

Documentation for Automated Underwriting Cases, Continued

- e. **Documentation Guidelines for Borrowers-Self Employed** Refer to the following table for documentation guidelines for employment/income for borrowers who are self-employed.

| Subject and Reference | Documentation Classification | |
|---|---|--|
| | Documentation Guidelines and Reductions for Refer | Additional Documentation Reductions for Accept/Approve |
| Individual tax returns for self-employed borrowers (section 2 of this chapter) | <p>Provide 1 of the following, with all line items captured:</p> <ul style="list-style-type: none"> Signed copies of individual tax returns for the most recent 2 year period Individual income information obtained from the IRS via 1 of the following forms: <ul style="list-style-type: none"> Form 8821 (or an alternate form acceptable to the IRS that collects comparable information) Form 4506 (or an alternate form acceptable to the IRS that collects comparable information) | Same as Refer. |
| Balance sheets and profit and loss statements for self-employed borrowers (section 2 of this chapter) | <p>No balance sheet or YTD Profit and Loss (YTD P&L) is required if any of the following occur:</p> <ul style="list-style-type: none"> Origination date is \leq 7 months from the business' fiscal year end (for which tax returns or information from the IRS via Form 8821 or Form 4506 were provided) | No balance sheet or YTD P&L is required. |

Documentation for Automated Underwriting Cases, Continued

e. Documentation Guidelines for Borrowers-Self Employed (continued)

| Subject and Reference | Documentation Classification | |
|--|---|--|
| | Documentation Guidelines and Reductions for Refer | Additional Documentation Reductions for Accept/Approve |
| Business tax returns for self-employed borrowers (section 2 of this chapter) | <p>Provide 1 of the following, with all line items captured:</p> <ul style="list-style-type: none">• Signed copies of business tax returns for the most recent 2 year period• Business income information obtained from the IRS via 1 of the following forms:<ul style="list-style-type: none">– Form 8821 (or an alternate form acceptable to the IRS that collects comparable information)– Form 4506 (or an alternate form acceptable to the IRS that collects comparable information) | <p>No business tax returns are required if all of the following conditions are met:</p> <ul style="list-style-type: none">• Borrower proves ownership of the business for at least the past 5 years.• Individual tax returns reflect consistent income for the past 2 years.• Funds for down payment or closing costs are not from the business. |

Continued on next page

Maximum Loan

Excerpt from VA Lender's Handbook Chapter 3

Does VA have Maximum Loan Amounts?

Unlike other home loan programs, there are no maximum dollar amounts prescribed for VA-guaranteed loans.

Limitations on VA loan size are primarily attributable to 2 factors:

1. Lenders who sell their VA loans in the secondary market must limit the size of those loans to the maximums prescribed by [GNMA](#) or whatever conduit they use to sell the loans.
2. VA limits the amount of the loan to the reasonable value of the property shown on the NOV plus the cost of energy efficiency improvements up to \$6,000 plus the VA funding fee, with the following exceptions.

| Exception | Maximum Loan |
|--|---|
| Interest Rate Reduction Refinancing Loan | <ul style="list-style-type: none"> • Existing VA loan balance, plus • the cost of any energy efficiency improvements up to \$6,000, plus • allowable fees and charges, plus • up to 2 discount points, plus • VA funding fee. <p>(Lenders must use VA Form 26-8923, IRRRL Worksheet, for the actual calculation.)</p> |
| Regular refinancing loan (cash-out) | <ul style="list-style-type: none"> • 90 percent of the VA reasonable value, plus • the cost of any energy efficiency improvements up to \$6,000, plus • VA funding fee. |
| Loan to refinance: <ul style="list-style-type: none"> • A construction loan • an installment land sales contract, or • a loan assumed by the veteran at an interest rate higher than that for the proposed refinancing loan | <p>The lesser of</p> <ul style="list-style-type: none"> • the VA reasonable value, or • the sum of the outstanding balance of the loan plus allowable closing costs and discounts, plus (For construction loans, "balance of the loan" includes the balances of construction financing and lot liens, if any.) • the cost of any energy efficiency improvements up to \$6,000, plus • VA funding fee. |

Maximum Loan, Continued

| | |
|--|--|
| Graduated Payment Mortgage loan on existing property | <ul style="list-style-type: none">• The VA reasonable value, minus• the highest amount of negative amortization, plus• the cost of any energy efficiency improvements up to \$6,000, plus• VA funding fee. |
| Graduated Payment Mortgage loan on new home | 97.5 percent of the lesser of <ul style="list-style-type: none">• the VA reasonable value or• the purchase price, plus• the cost of any energy efficiency improvements up to \$6,000, plus• VA funding fee. |

Down payment

Because VA loans can be for the full reasonable value of the property, no down payment is required by VA except in the following circumstances:

- If the purchase price exceeds the reasonable value of the property, a down payment in the amount of the difference must be made in cash from the borrower's own resources.
- Also, VA requires a down payment on all GPMs.

If a veteran has less than full entitlement available, a lender may require a down payment in order to make the veteran a loan that meets [GNMA](#) or other secondary market requirements. The "rule of thumb" for [GNMA](#) is that the VA guaranty, or a combination of VA guaranty plus down payment and/or equity, must cover at least 25 percent of the loan.

Maximum Guaranty on VA Loans

Maximum Guaranty Table

The maximum guaranty on a VA loan is the lesser of

- the veteran's available entitlement (plus \$24,000 for purchase or construction loans or IRRRLs greater than \$144,000), or
- the maximum potential guaranty amount indicated below.

| Loan Amount | Loan Type(s) | Maximum Potential Guaranty | Special Provisions |
|------------------------|--|---|--|
| Up to \$45,000 | All | 50 percent of the loan amount | Minimum guaranty of 25% on IRRRLs |
| \$45,001 to \$56,250 | All | \$22,500 | Minimum guaranty of 25% on IRRRLs |
| \$56,251 to \$144,000 | All | 40 percent of the loan amount, with a maximum of \$36,000 | Minimum guaranty of 25% on IRRRLs |
| Greater than \$144,000 | Must be for: <ul style="list-style-type: none"> • Purchase or construction of a home, or • Purchase of a condominium unit, or • Refinancing with an IRRRL | 25 percent of the loan amount, with a maximum of \$60,000 | Cash-out refinances have a maximum guaranty of \$36,000 Minimum guaranty of 25% on IRRRLs |
| Any | Joint Loans | → | See section 1 of Ch 7 |
| | Energy Efficient Mtg | → | See section 3 of Ch 7 |
| | Construction loans on which construction is incomplete | → | See section 2 of Ch 7 |
| | Supplemental loans | | See section 5 of Ch 7 |

The Veterans Benefits Act of 2004

1. PURPOSE: S. 2486, the Veterans Benefits Act of 2004, was signed by the President on December 10, 2004. A Public Law number has not yet been assigned. This circular explains provisions affecting the Loan Guaranty Program.

2. BENEFIT CHANGES

a. Maximum Guaranty Amount. The law changes the maximum guaranty amount of \$60,000, for certain loans in excess of \$144,000, to an amount equal to 25 percent of the Freddie Mac conforming loan limit determined under section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act for a single family residence, as adjusted for the year involved. To illustrate, the maximum guaranty for 2005 would be \$89,912. This is 25 percent of the 2005 Freddie Mac conforming loan limit for a single family residence of \$359,650. Under Freddie Mac's charter, maximum original loan amounts are 50 percent higher for first mortgages on properties in Alaska, Hawaii, Guam and the U.S. Virgin Islands. This higher amount would also apply to VA loans in these areas.

b. Specially Adapted Housing. The law expands eligibility to the \$50,000 Specially Adapted Housing (SAH) grant to veterans with permanent and total service-connected disabilities due to the loss of, or loss of use, of both upper extremities such as to preclude use of the arms at or above the elbows. Detailed instructions to VA field stations will be forthcoming. In addition, Title 38, Section 1151, is amended to specify eligibility where any veteran has suffered an injury, or an aggravation of an injury, as the result of hospitalization, medical or surgical treatment, as if it were service-connected for benefits under Chapter 21, relating to SAH.

c. Adjustable Rate Mortgages. The law gives VA authority to guarantee "traditional" Adjustable Rate Mortgages (ARMs) in a manner similar to that by which HUD insures adjustable rate mortgages under section 251 of the National Housing Act. VA previously had this authority but it expired September 30, 1995. The legislation provides authority through September 30, 2008. Key features of this program are:

- (1) Interest rate adjustments on an annual basis;
- (2) Annual interest rate adjustments limited to a maximum increase or decrease of 1 percentage point;
- (3) Interest rate increases limited to a maximum of 5 percent points over the life of the loan;
- (4) This type of ARM loan **MUST** be underwritten at 1 percentage point above the initial rate.

d. Hybrid ARM Loans

(1) *Extension of Authority.* The law extends VA authority to guarantee hybrid ARM loans to September 30, 2008.

(2) *Modification of Interest Rate Adjustment Requirements:*

(a) If the initial contract interest rate remains fixed for less than 5 years, the initial adjustment is limited to a maximum increase or decrease of 1 percentage point and the interest rate increase over the life of the loan is limited to 5 percentage points.

(b) If the initial contract interest rate remains fixed for 5 years or more, the initial adjustment will be limited to a maximum increase or decrease of 2 percentage points.

(c) In cases where the initial interest rate remains fixed for 5 years or more, the interest rate increase over the life of the loan will be limited to 6 percentage points.

(3) *Effect on hybrid ARMS Guaranteed prior to Enactment of the Act.* The provisions of this Act will not affect existing hybrid ARMs. VA hybrid ARM loans made prior to this Act will be subject to the terms in effect at the time they were made. For example, a hybrid ARM with an initial fixed rate for 5 years or more made prior to this Act is limited to a 1 percentage point initial adjustment and a 5 percent limit over the life of the loan.

e. Native American Direct Loan Program (NADL). The authority to make direct loans under the ADL program has been extended to December 31, 2008.

f. Funding Fee Exemption. The law expands the definition of veterans who are in receipt of compensation and thus entitled to a waiver of the VA funding fee. Veterans who are rated eligible to receive compensation as a result of a pre-discharge disability examination and rating will now be considered as receiving compensation as of that date. This means veterans still on active duty awaiting discharge, but who wish to close on a loan before being released from the military, may be entitled to a waiver of the funding fee.

g. Effective Date. All provisions became effective upon the signing of the Act into law.

RESCISSION. This circular is rescinded January 1, 2006

Powers of Attorney

Excerpt from VA Lender's Handbook Chapter 9

Policy

VA will allow a veteran to use an attorney-in-fact to execute any documents necessary to obtain a VA guaranteed loan. This enables active duty servicepersons stationed overseas, and other veterans who cannot be present to execute loan documents, to obtain VA loans.

Requirements

The veteran must execute a **general or specific power of attorney** which is valid and legally adequate. The veteran's attorney-in-fact may use this power of attorney to apply for a Certificate of Eligibility and initiate processing of a loan on behalf of the veteran.

To complete the loan transaction using an attorney-in-fact, ensure that the general or specific power of attorney complies with state law to the extent that

- the mortgage can be legally enforced in that jurisdiction, and
- clear title can be conveyed in the event of foreclosure.

To complete the loan transaction using an attorney-in-fact VA also requires the veteran's written consent to the specifics of the transaction. This requirement can be satisfied by either:

- the veteran's signature on both the sales contract and the [URLA](#), as long as the veteran's intention to obtain a VA loan on the particular property is expressed somewhere in those documents, **or**
- a specific power of attorney or other document(s) signed by the veteran, which encompasses the following elements:
 - Entitlement—A clear intention to use all or a specified amount of entitlement.
 - Purpose—A clear intention to obtain a loan for purchase, construction, repair, alteration, improvement, or refinancing.
 - Property Identification—Address of the specific property.
 - Price and Terms—The sales price, if applicable, and other relevant terms of the transaction.
 - Occupancy—The veteran's intention to use the property as a home to be occupied by the veteran (or other applicable VA occupancy requirement).

Powers of Attorney, (Continued)

In addition, at the time of loan closing, the lender must:

- verify that the veteran is alive, and, if on active military duty, not missing in action, (MIA) and
- make the following certification:

“The undersigned lender certifies that written evidence in the form of correspondence from the veteran or, if on active military duty, statement of his or her commanding officer (including statement of person authorized to act for said officer), affirmatively indicating that the veteran was alive and, if the veteran is on active military duty, not missing in action status on (date), was examined by the undersigned and that the said date is subsequent to the date the note and security instruments were executed on the veteran’s behalf by the attorney-in-fact.”

Veteran’s Status as Alive and not MIA

The lender must always verify that the veteran is alive at the time of loan closing, whether or not the veteran is still in the military.

If the lender has difficulty obtaining verification that a service person in a combat area is alive and not in MIA status, the lender may request that VA obtain the necessary information on its behalf.

VA may deny guaranty on a loan if the lender failed to properly verify the veteran’s status and the veteran was deceased (or MIA) at the time the loan was closed.

Request for Certificate of Eligibility

Please note that VA has several procedures for requesting a Certificate of Eligibility.

There are several methods to request a Certificate of Eligibility:

- **Mail VA Form 26-1880, Request for Certificate of Eligibility, *along with all supporting documentation*, to:**

**VA Eligibility Center
P O Box 20729
Winston-Salem, NC 27120**

- **Overnight Mail Service to:**

**VA Eligibility Center
251 North Main Street
Winston-Salem, NC 27155**

- **Online Internet Automated Certificate of Eligibility (ACE)
<http://vip.vba.va.gov/>**

- **IRRRL E-Mail Confirmation For Interest Rate Reduction Refinancing Loans Only, Internet request for E-mail confirmation of eligibility, in lieu of Certificate of Eligibility**

<http://www.vba.va.gov/ro/Roanoke/rlc/qiloans.htm>

By not using the above services, you lose time and money for your office, for the VA, and most importantly for the Veteran.

The Roanoke Regional Loan Center currently processes requests for Eligibility on a walk-in basis. Walk-in service should only be requested in emergency situations. We encourage you to utilize the services listed above.

You may contact the VA Eligibility Center each weekday, from 8:00 am to 4:00 pm,

- by telephone toll-free at 1-888-244-6711;
- or by e-mail at NCELIGIB@vba.va.gov

General Reference Information

VA Eligibility Center

| Mailing Address | Phone Number | Overnight Address |
|---|----------------|---|
| VA Loan Eligibility Center P.O. Box 20729 Winston-Salem, NC 27120 | (888) 244-6711 | VA Regional Office 251 N. Main Street Winston-Salem, NC 27155 |

E-Mail address: NCELIGIB@vba.va.gov

Military Records

National Personnel Records Center (Military Personnel Records NPRC (MPR))
www.nara.gov/regional/mpr.html

Personnel Reserve Centers

If a reservist needs to obtain copies of point statements or other documentation that reflects 6 years participation with evidence of honorable discharge required to apply for home loan benefits contact:

| Branch | Type of Form | Telephone |
|-------------------------|---|----------------|
| Army/Air National Guard | NGB 22, Report of Separation and Record of Service | (314) 592-0123 |
| Army Reserve | DARP FM 249-2E or ARPC Fm 606, Chronological Statement of Retirement Points | (314) 592-0123 |
| Navy Reserve | NRPC 1070-124, Annual Retirement Point Record | (800) 966-9174 |
| Air Force Reserve | AF 526, Point Summary Sheet | (800) 525-0102 |
| USMC Reserve | NAVMC 798 | (314) 801-0800 |
| Coast Guard Reserve | CG 4175 | (314) 801-0800 |

Military Records Center
Email – MPRSTATUS@NARA.gov

If a veteran needs to obtain copies of discharge papers needed to apply for home loan benefits contact:

| Branch | Telephone |
|----------------------------|----------------|
| Army | (314)592-0123 |
| Air Force | (800) 525-0102 |
| Navy, Marines, Coast Guard | (314) 801-0800 |

SF Form 180 required to request discharge papers can be found at:
www.vba.va.gov/pubs/otherforms.htm

USEFUL WEB SITES

| Address (URL) | What's There? |
|---|---|
| http://vip.vba.va.gov/ | Veteran's Information Portal Single sign-in gateway to ACE, TAS and other applications |
| www.homeloans.va.gov | Lender's Handbook, VA forms, FAQs, e-mail addresses, information pamphlets, links to lists of VA acquired homes, VA Regional Office directory |
| www.homeloans.va.gov/elig.htm | Eligibility Centers (eligibility information, FAQs, download 26-1880) |
| www.vba.va.gov/pubs/forms1.htm | VA Forms |
| www.nara.gov/regional/mpr.html | National Personnel Records Center (Includes information regarding obtaining military personnel records.) |
| www.homeloans.va.gov/train.htm | Free training on the VA home loan program, including web-based, computer-based, videotapes, and interactive TV courses. |
| http://homeloans.va.gov/mortlen1.htm | Find a VA approved lender in any location. |
| predesignteamfee@vba.va.gov | E-mail address to send comments or suggestions to the Loan Production Redesign Team |
| http://www.irs.gov/newsroom/article/0,,id=101262,00.html | IRS website to verify types of non-taxable military pay. |

Regional Loan Centers

Atlanta, GA

Georgia, Tennessee, North Carolina, South Carolina

(888) 768-2132

Cleveland, OH

Ohio, Michigan, Indiana, Delaware, Pennsylvania,
New Jersey

(800) 729-5772

Denver, CO

Colorado, Wyoming, Montana, New Mexico,
Alaska, Utah, Idaho, Oregon, Washington

(888) 349-7541

Houston, TX

Texas, Arkansas, Oklahoma, Louisiana

(888) 232-2571

Manchester, NH

Maine, Massachusetts, Connecticut, Vermont,
New Hampshire, Rhode Island, New York

(Loan Administration)

(800) 827-0336

(Loan Production/Valuation)

(800) 827-6311

Phoenix, AZ

Arizona, Nevada, California

(888) 869-0194

Roanoke, VA

Virginia, West Virginia, Washington DC,
Maryland, Kentucky

(800) 933-5499

St. Paul, MN

Minnesota, Illinois, Iowa, Nebraska, Kansas,
Wisconsin, North Dakota, South Dakota, Missouri

(800) 827-0611

St. Petersburg, FL

Florida, Alabama, Mississippi

(888) 611-5916

Note: These Regional Offices also have fully functioning Loan Production offices:

San Juan, PR

Honolulu, HI

(787) 772-7212

(808) 433-0480